Forging Ahead

MTR

Interim Report 2008

Highlights

Financial

- Strong financial results from Rail Merger * and strong economy
- Revenue increased 75.7% to HK$8,527 million
- EBITDA up 71.5% to HK$4,796 million
- Property development profit of HK$348 million mainly from disposal of properties held for sale and deferred income; profit from The Capitol and The Palazzo will be recognised when occupation permits are issued
- Net profit attributable to equity shareholders, excluding investment properties revaluation and related deferred tax, (profit from underlying business) increased 33.2% to HK$2,731 million
- Net profit attributable to equity shareholders, including investment properties revaluation and related deferred tax, of HK$4,689 million
- Net debt/equity ratio improved to 42.1%
- Interim dividend of HK$0.14 per share. The Board will consider progressive increase of dividend when recommending final dividend together with full year results

Operational

- Patronage of Domestic Service increased 36.3% due to Rail Merger and organic growth
- Airport Express patronage grew 8.1%. Cross-boundary patronage increased 4.9% compared with same period last year
- Pre-sales of The Capitol and The Palazzo completed with 100% and more than 80% units sold respectively
- Che Kung Temple property package awarded in April 2008
- Significant network expansion in coming years with six new lines
- Good progress on Kowloon Southern Link, West Island Line and South Island Line (East)
- Shatin to Central Link, Kwun Tong Line Extension and Express Rail Link approved by Government for further planning and design

* The merger of the rail operations of MTR Corporation and Kowloon-Canton Railway Corporation (KCRC) and the acquisition of certain property interests by MTR Corporation from KCRC, full details of which are set out in the Rail Merger Circular dated 3 September 2007. The Rail Merger was completed on 2 December 2007.

Vision

We aim to be a globally recognized leader that connects and grows communities with caring service

Mission

- Enhance **customers'** quality of life and anticipate their needs
- Actively engage in **communities** we serve
- Foster a company culture that **staff** can learn, grow and take pride in
- Provide sustainable returns to **investors**
- Set ourselves **new standards** through innovation and continuous improvement
- **Grow** in Hong Kong, Mainland of China and capture opportunities in Europe by extending our core competencies

Contents

Operating Network with Future Extensions

Legend

- Station
- Interchange Station
- Proposed Station
- Proposed Interchange Station
- Cable Car Ngong Ping 360
- Shenzhen Metro Network
- * Racing days only

Existing Network

- Airport Express
- Disneyland Resort Line
- East Rail Line
- Island Line
- Kwun Tong Line
- Light Rail
- Ma On Shan Line
- Tseung Kwan O Line
- Tsuen Wan Line
- Tung Chung Line
- West Rail Line

Projects in Progress

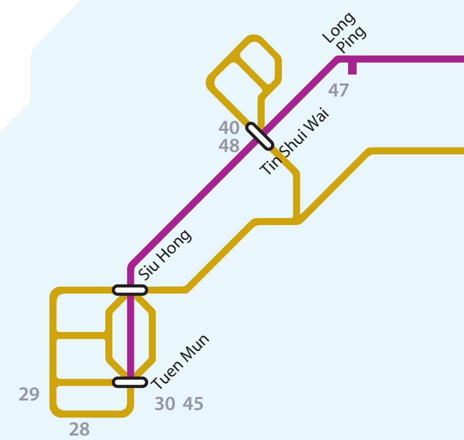
- Kowloon Southern Link
- Tseung Kwan O South

Extensions under Study

- Guangzhou-Shenzhen-Hong Kong Express Rail Link
- Kwun Tong Line Extension
- Shatin to Central Link
- South Island Line (East)
- West Island Line

Future Extensions

- North Island Link
- Northern Link
- South Island Line (West)



Properties Owned / Developed / Managed by the Corporation

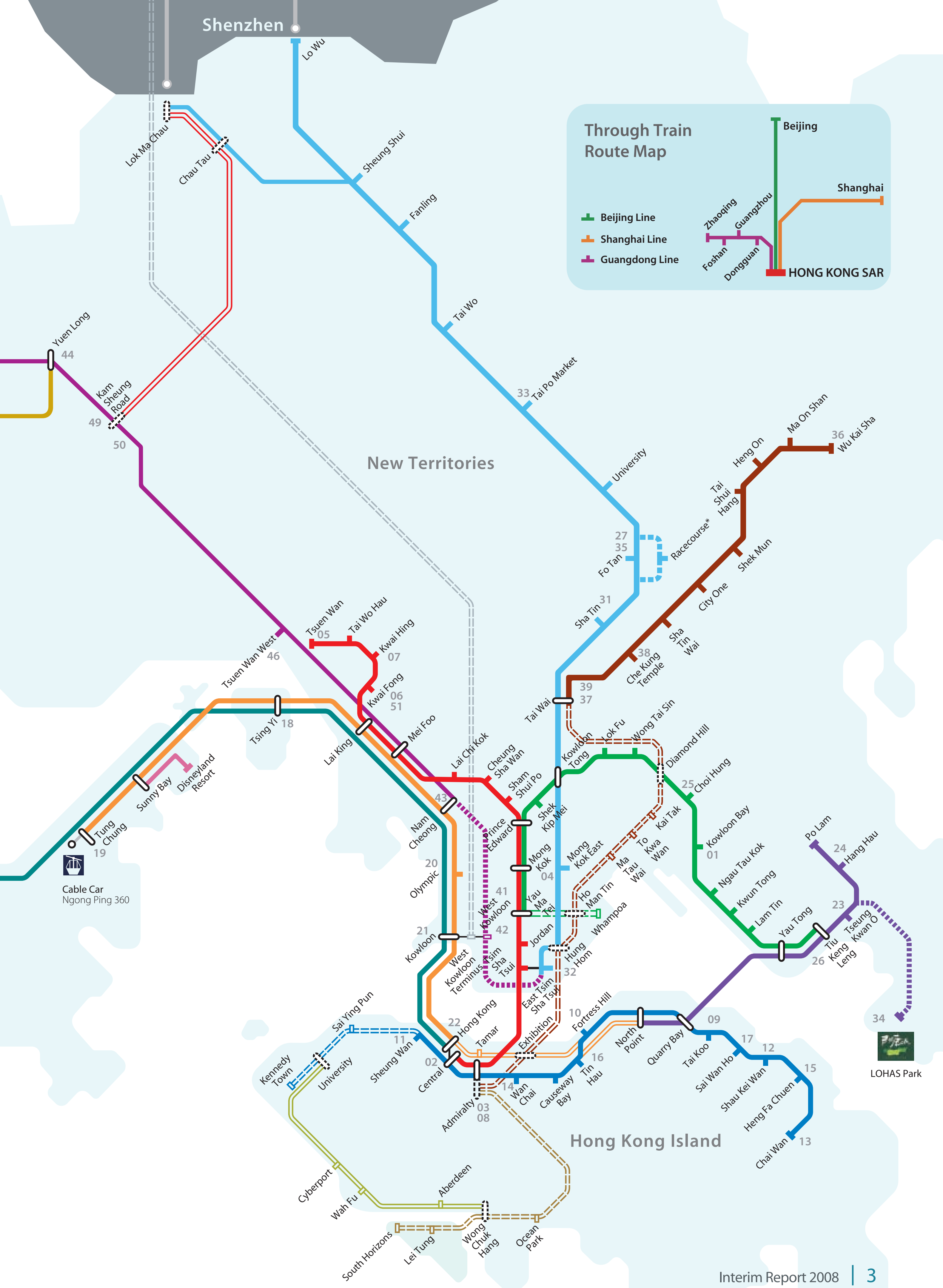
01 Telford Gardens / Telford Plaza I and II
02 World-wide House
03 Admiralty Centre
04 Argyle Centre
05 Luk Yeung Sun Chuen / Luk Yeung Galleria
06 New Kwai Fong Gardens
07 Sun Kwai Hing Gardens
08 Fairmont House
09 Kornhill / Kornhill Gardens
10 Fortress Metro Towers
11 Hongway Garden / Vicwood Plaza
12 Perfect Mount Gardens
13 New Jade Garden
14 Southorn Garden
15 Heng Fa Chuen / Heng Fa Villa / Paradise Mall
16 Park Towers
17 Felicity Garden
18 Tierra Verde / Maritime Square
19 Tung Chung Crescent / Citygate / Novotel Citygate / Seaview Crescent / Coastal Skyline / Caribbean Coast
20 Central Park / Island Harbourview / Park Avenue / Harbour Green / Bank of China Centre / HSBC Centre / Olympian City One / Olympian City Two
21 The Waterfront / Sorrento / The Harbourside / The Arch / Elements / The Cullinan / Harbourview Place / International Commerce Centre
22 One International Finance Centre / Two International Finance Centre / IFC Mall / Four Seasons Hotel / Four Seasons Place
23 Central Heights / The Grandiose / The Edge
24 Residence Oasis / The Lane
25 No.8 Clear Water Bay Road / Choi Hung Park & Ride
26 Metro Town
27 Royal Ascot / Plaza Ascot
28 Pierhead Garden / Ocean Walk
29 Sun Tuen Mun Centre / Sun Tuen Mun Shopping Centre
30 Hanford Garden / Hanford Plaza
31 Citylink Plaza
32 MTR Hung Hom Building / Hung Hom Station Carpark
33 Trackside Villas

Property Developments under Construction / Planning

19 Tung Chung Station Package 3
21 Kowloon Station Package 5, 6 & 7
23 Tseung Kwan O Station Area 56
34 LOHAS Park
35 Ho Tung Lau Site A
36 Wu Kai Sha Station
37 Tai Wai Maintenance Centre
38 Che Kung Temple Station
39 Tai Wai Station
40 Tin Shui Wai Light Rail Terminus
41 Kowloon Southern Link Site C
42 Kowloon Southern Link Site D

West Rail Line Property Development (As Government Agent)

43 Nam Cheong Station
44 Yuen Long Station
45 Tuen Mun Station
46 Tsuen Wan West Station
47 Long Ping Station
48 Tin Shui Wai Station
49 Kam Sheung Road Station
50 Pat Heung Maintenance Centre
51 Kwai Fong Site


Shenzhen
Lo Wu
Sheung Shui
Fanling
Tai Wo
Tai Po Market
University
Racecourse*
Fo Tan
Sha Tin
New Territories
Through Train Route Map
Beijing
Shanghai
Zhaoqing
Guangzhou
Foshan
Dongguan
HONG KONG SAR
Beijing Line
Shanghai Line
Guangdong Line
Lok Ma Chau
Chau Tau
Yuen Long
Kam Sheung Road
Ma On Shan
Wu Kai Sha
Heng On
Tai Shui Hang
Shek Mun
City One
Sha Tin Wai
Che Kung Temple
Tai Wai
Tsuen Wan
Tai Wo Hau
Kwai Hing
Kwai Fong
Tsuen Wan West
Tsing Yi
Lai King
Mei Foo
Lai Chi Kok
Cheung Sha Wan
Sham Shui Po
Kowloon Tong
Lok Fu
Wong Tai Sin
Diamond Hill
Choi Hung
Kowloon Bay
Ngau Tau Kok
Kwun Tong
Lam Tin
Yau Tong
Tiu Keng Leng
Tseung Kwan O
Po Lam
Hang Hau
LOHAS Park
Sunny Bay
Disneyland Resort
Tung Chung
Cable Car
Ngong Ping 360
Nam Cheong
Olympic
Kowloon
Prince Edward
Shek Kip Mei
Mong Kok
Mong Kok East
Yau Ma Tei
Kai Tak
To Kwa Wan
Ma Tau Wai
Ho Man Tin
Whampoa
West Kowloon
Jordan
Tsim Sha Tsui
East Tsim Sha Tsui
Hung Hom
West Kowloon Terminus
Hong Kong
Tamar
Exhibition
Fortress Hill
North Point
Quarry Bay
Tai Koo
Sai Wan Ho
Shau Kei Wan
Heng Fa Chuen
Chai Wan
Kennedy Town
Sai Ying Pun
University
Sheung Wan
Central
Admiralty
Wan Chai
Causeway Bay
Tin Hau
Hong Kong Island
Cyberport
Wah Fu
Aberdeen
South Horizons
Lei Tung
Wong Chuk Hang
Ocean Park

Chairman's Letter

"The period witnessed smooth and rapid implementation of the Rail Merger, the progress of our projects for extending the Hong Kong network, and our ongoing commitment to the sustainable economic growth of Hong Kong."

Dear Stakeholders,

I am pleased to report to you the interim results of MTR Corporation for the first six months of 2008.

The period witnessed smooth and rapid implementation of the Rail Merger, the progress of our projects for extending the Hong Kong network, and our ongoing commitment to the sustainable economic growth of Hong Kong.

The results in the first half demonstrate the initial success of the Rail Merger. We achieved strong financial results for the half year, with revenue rising by 75.7% to HK$8,527 million and operating profit from railway and related businesses before depreciation and amortisation also increasing by 71.5% to HK$4,796 million. Our property development profit realised in the period was HK$348 million, less than the HK$1,664 million recognised in the first half of 2007, due to the timing of development profit recognition particularly relating to two development projects, The Capitol and The Palazzo, from which, subject to issuance of the Occupation Permit, we expect profit bookings later. Excluding the change in fair value of investment properties and the related deferred tax, net profit from underlying businesses attributable to equity shareholders increased by 33.2% to HK$2,731 million. Including investment property revaluation, our net profit attributable to equity shareholders was HK$4,689 million and earnings per share were HK$0.83. Your Board has declared an interim dividend of HK$0.14 per share.

Rail Merger

The first half of 2008 saw the continued successful implementation of the programme that has guided us throughout the merger integration process. A new set of the Vision, Mission and Values for the Company was developed following the Rail Merger. We continued to work on creating harmonious staff relations and a unified culture, as well as completed the selection and appointment of all of our staff, as part of merger integration. We intensified our ongoing "Service from the Heart" campaign, signalling a new chapter in high quality customer service. A large-scale review of energy efficiency was also launched through benchmarking of best practices from both pre-merger rail operations. Overall, the work of the Merger Integration Office ensured that divisional integration, achievements in synergies and integration of the single journey ticket system stayed on track.

Growth Strategy

Our growth strategy gained much ground in Hong Kong with Government's approval, in March and April, for the planning and design of the Shatin to Central Link, the Kwun Tong Line Extension to Whampoa and the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link. These new lines together with the West Island Line, South Island Line (East), and Kowloon Southern Link which were previously approved by Government will, when completed, add approximately 60 kilometres to our network, representing the largest home base network expansion in the history of our company.

Our Mainland of China and international business continued to expand, with progress on the Beijing Metro Line 4 project and Shenzhen Metro Line 4 project, the exploration of new opportunities in Hangzhou and Shenyang, and further progress of our joint venture, London Overground Rail Operations Limited.

Sustainability

Concerns over the environment and climate change have become key business considerations for companies around the world. MTR Corporation continues to expand our commitment to fostering sustainable development and the well-being of the communities wherever we operate.

Our efforts to integrate environmental concerns, best practice and sustainability into all our business decisions continued to receive widespread acclaim. In February, we were recognised as a Sustainability Leader within the global travel and tourism industry sector, and won the Silver Class Award from Sustainable Asset Management. We have also retained our listing on the internationally recognised Dow Jones Sustainability Indexes and FTSE4Good Index series.

In May we published our seventh annual Sustainability Report 2007, *Building Capability*, which reflects our culture of continual improvement. The Report offers our vision of the future challenges to our business from the changing physical environment and the benefits derived for the communities we serve.

We also won the Hang Seng Pearl River Delta Environmental Award organised by the Federation of Hong Kong Industries. The award recognised our efforts in protecting the environment and embracing sustainability through launching a series of initiatives, including energy saving programmes in stations, recycling of industrial rechargeable batteries, construction of noise barriers and sustainability reporting.

We continue to encourage MTR colleagues to take part in community service. During the first six months of the year, there were 35 volunteering projects in our "More Time Reaching Community" scheme involving around 600 volunteers. In April, the fourth MTR HONG KONG Race Walking event was held in Central to encourage Hong Kong people to integrate regular exercise into their daily lives. The event raised HK$1.3 million for health education.

We are affected in spirit by the natural disasters in the Mainland. In February, after record snow falls in Central China, we donated HK$1 million to the Hong Kong Red Cross to provide clothing and emergency supplies for the victims, and HK$1 million to the All-China Federation of Railway Trade Unions to show our care and concern. The Sichuan earthquake in May was a blow to everyone. Following an initial early donation of HK$1 million by the Company, MTR colleagues raised another HK$5.6 million which was "dollar matched" in donation by the Company, bringing the total to HK$11.27 million. In addition, our colleagues working in various offices in the Mainland raised a further RMB300,000, while in our shopping centres in Hong Kong, customers contributed an additional HK$2 million. In sum, donations from MTR Corporation, our employees and our customers topped over HK$14.6 million for those struggling in the aftermath of the Sichuan earthquake.

The soundness of our Board governance, the excellence of our management and staff, the loyalty of our customers and the trust of our shareholders underpin the continuing strong performance of MTR Corporation. As we forge ahead in the new "post merger" era, I would like to thank my fellow directors, our staff and all our stakeholders for their continued support.

Raymond K.F. Ch'ien

Dr. Raymond Ch'ien Kuo-fung, *Chairman*
Hong Kong, 5 August 2008

CEO's Review of Operations and Outlook

"The Company's results for the first half of 2008 demonstrate the significant financial benefits to the Company from the Rail Merger."

Dear Stakeholders,

The first six months of 2008 saw marked progress for the Company. Firstly, following completion of the Rail Merger on 2 December 2007, integration of the Company and Kowloon-Canton Railway Corporation (KCRC) is making good progress. The success of the Rail Merger is clearly demonstrated in the first half business results. Secondly, the Company is embarking on a very large railway network expansion programme in Hong Kong, with the Hong Kong SAR Government giving approval for the Company to commence further planning and design for the Shatin to Central Link, the Kwun Tong Line Extension and the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Express Rail Link). Together with Government's previous decision in 2007 to proceed with further planning and design for the West Island Line and South Island Line (East) and the on-going construction of the Kowloon Southern Link, these six new rail lines will add approximately 60 kilometres to Hong Kong's railway network and represent the largest railway expansion in the history of the Company.

The Company's results for the first half of 2008 demonstrate the significant financial benefits to the Company from the Rail Merger. Our revenue increased by 75.7% to HK$8,527 million while operating profit from railway and related businesses before depreciation and amortisation rose by 71.5% to HK$4,796 million. Property development profits, mainly from sale of units in inventory and deferred income, were HK$348 million compared to HK$1,664 million in the same period of 2007. The magnitude of property development profits in any particular accounting period is dependent on timing of recognition of such profits; hence profits in respect of The Capitol and The Palazzo, although mostly sold in the first half, were not recognised in the first half. Excluding the change in fair value of investment properties and the related deferred tax, net profit from underlying businesses attributable to equity shareholders increased by 33.2% to HK$2,731 million. Change in fair value of investment properties was HK$2,080 million pre-tax (HK$1,737 million post-tax). The net profit attributable to equity shareholders was HK$4,689 million, an increase of 15.2% over the corresponding period in 2007. The reported earnings per share increased by 13.7% to HK$0.83. Your Board has declared an interim dividend of HK$0.14 per share.

Merger Integration

With the completion of the Rail Merger on 2 December 2007, we continue to work diligently on the further integration of organisation as well as operating and support systems.

The Executive Directors, department heads and major section heads were selected and appointed before completion of the Rail Merger to ensure a smooth transition. The selection and appointment process for all other staff was completed in April this year. The implementation of a new grading and salary structure, as well as alignment of terms and conditions for all staff, were completed by 1 March 2008.

The development of a combined Safety System and the integration of all major IT systems have been completed as planned. We are now completing the integrated single journey ticketing project and station modification works at Kowloon Tong, Mei Foo and Nam Cheong to prepare for the removal of interchange barriers at these three interchange stations, which under the Merger Framework Agreement will be completed before the anniversary of the Rail Merger day.

Merger synergies are being achieved through a combination of energy optimisation, combined procurements to create scale, revenue enhancements resulting from the expanded network and the revised organisational structure. We are confident of achieving our target synergy of HK$450 million per annum that we have indicated would take three years to fully realise.

Hong Kong Railway Operations

Patronage

For the first half of 2008, total patronage for all of our rail and bus passenger services (Integrated MTR System) increased by 66.1% to 721.2 million as compared to that of the same period last year due mainly to the Rail Merger. On a "like for like" basis, such passenger numbers would have increased by 4.0% when compared with the combined rail and bus patronage numbers of MTR Corporation and KCRC (as adjusted for interchange passengers) in the first half of 2007 (Pre-Merger Comparable Patronage).

Our Domestic Service, which includes the MTR Lines (comprising the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O and Disneyland Resort lines) and after the Rail Merger, the KCR Lines (comprising the East Rail excluding Cross-boundary Service, West Rail and Ma On Shan lines), recorded total patronage of 585.2 million. This represents an increase of 36.3% when compared with the patronage of the MTR Lines in the first half of 2007 and 4.3% when compared with the equivalent Pre-Merger Comparable Patronage.

For the Cross-boundary Service at Lo Wu and Lok Ma Chau, patronage was 46.0 million for the first half of 2008, representing an increase of 4.9% compared to the same period in 2007, mainly as a result of the expanding cross-boundary market and the opening of Lok Ma Chau spur line on 15 August 2007.

Passengers using the Airport Express in the first half of 2008 rose 8.1% to 5.2 million when compared with the same period last year because of the continued increase in travellers using Hong Kong International Airport as well as the increased number of events at the AsiaWorld-Expo.

Average weekday patronage for the Domestic Services in the first half of 2008 was 3.44 million which represents an increase of 35.3% over that of the MTR Lines in the same period last year, mainly due to the Rail Merger. Such average weekday patronage represents an increase of 4.1% over the equivalent Pre-Merger Comparable Patronage.

Overall, average weekday patronage on the Integrated MTR System was 4.2 million in the first half of 2008.

Market Share

Our overall share of the franchised public transport market rose to 41.6% in the first five months of 2008 as compared to 25.0% in the same period last year, largely due to the Rail Merger. Within this total, our share of cross-harbour traffic rose to 62.6% for the first five months in 2008 from 61.2% in the same period in 2007.

Fare Revenue

Total fare revenue was HK$5,592 million in the first half of 2008, which represents an increase of 72.2% over the same period last year. Such fare revenue also represents a slight increase of 0.9% over the combined fare revenue of the rail and bus services of MTR Corporation and KCRC in the same period in 2007.

Fare revenue of the Domestic Service was HK$3,850 million in the first half of 2008, which represents an increase of 31.2% over that of MTR Lines for the same period in 2007. However, compared with the combined fare revenue of MTR Lines and KCR Lines in the same period in 2007, there was a slight decline of 0.6% mainly due to the fare reduction implemented on the Rail Merger day.

Average fare per passenger for the Domestic Service in the first half of 2008 was HK$6.58, a decrease of 3.8% compared with average fares for MTR Lines in the same period in 2007 (a decrease of 4.7% when compared with the weighted average fares of MTR Lines and KCR Lines of HK$6.90, as adjusted for interchange passengers for the same period last year). The decrease is due to the one off fare reduction implemented on the Rail Merger day.

For Cross-boundary Service, average fare per passenger was HK$24.27 in the first half of 2008, a slight decrease of 1.0% when compared with the equivalent pre-merger period in 2007, whilst for the Airport Express, average fare per passenger increased slightly by 0.5% to HK$64.72.

Operations Performance in First Half 2008

Service performance item	Performance Requirement	Customer Service Pledge target	**Actual Performance##**
Train service delivery			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line & Airport Express	98.5%	99.5%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.5%	99.5%	**99.9%**
– West Rail Line	98.5%	99.5%	**99.9%**
– Light Rail	98.5%	99.5%	**99.9%**
Passenger journeys on time			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line & Disneyland Resort Line	98.5%	99.5%	**99.9%**
– Airport Express	98.5%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.5%	99.0%	**99.9%**
– West Rail Line	98.5%	99.0%	**99.9%**
Train punctuality			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line & Disneyland Resort Line	98.0%	99.0%	**99.8%**
– Airport Express	98.0%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.8%**
– West Rail Line	98.0%	99.0%	**99.9%**
– Light Rail	98.0%	99.0%	**99.9%**
Train reliability: train car-km per train failure causing delays ≥5 minutes			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line & Airport Express	N/A	500,000	**2,191,472**
– East Rail Line (including Ma On Shan Line) & West Rail Line	N/A	500,000	**2,368,372**
Ticket reliability: magnetic ticket transactions per ticket failure			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line & Airport Express	N/A	8,000	**10,971**
Add value machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line & Airport Express	98.0%	99.0%	**99.6%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.9%**
– West Rail Line	98.0%	99.0%	**99.9%**
– Light Rail	N/A	99.0%	**99.7%**
Ticket machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line & Airport Express	97.0%	99.0%	**99.5%**
– East Rail Line (including Ma On Shan Line)	97.0%	99.0%	**99.8%**
– West Rail Line	97.0%	99.0%	**99.9%**
– Light Rail	N/A	99.0%	**99.8%**
Ticket gate reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line & Airport Express	97.0%	99.0%	**99.7%**
– East Rail Line (including Ma On Shan Line)	97.0%	99.0%	**99.9%**
– West Rail Line	97.0%	99.0%	**99.3%**
Light Rail platform Octopus processor reliability	N/A	99.0%	**99.9%**
Escalator reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line & Airport Express	98.0%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.9%**
– West Rail Line	98.0%	99.0%	**99.9%**
Passenger lift reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line & Airport Express	98.5%	99.5%	**99.8%**
– East Rail Line (including Ma On Shan Line)	98.5%	99.5%	**99.8%**
– West Rail Line	98.5%	99.5%	**99.8%**
Temperature and ventilation			
Trains, except Light Rail: to maintain a cool, pleasant and comfortable train environment generally at or below 26 °C	N/A	97.0%	**99.9%**
Light Rail: on-train air-conditioning failures per month	N/A	<3 times	**0 time**
Stations: to maintain a cool, pleasant and comfortable environment generally at or below 27 °C for platforms and 29 °C for station concourses, except on very hot days	N/A	90.0%	**99.6%**
Cleanliness			
Train compartment: cleaned daily	N/A	98.5%	**99.8%**
Train exterior: washed every 2 days (on average)	N/A	99.0%	**100.0%**
Northwest Transit Service Area Bus Service			
– Service Delivery	N/A	99.0%	**100.0%**
– Cleanliness: washed daily	N/A	99.0%	**99.5%**
Passenger enquiry response time within 6 working days	N/A	99.0%	**100.0%**

The actual performance figures are for the operating period from 2 December 2007 to 30 June 2008 as per the post-merger Operating Agreement.

Service and Performance

We continue to exceed both the minimum performance levels as stipulated in the Operating Agreement and our own more stringent Customer Service Pledges.

Service improvements in the first half of 2008 included the trial of Wi-Fi connected CCTV systems on trains, the testing of extended multi-user areas on trains to offer more convenience to passengers, and the spraying of commonly touched surfaces with non-toxic disinfectant. Tenders were invited for the purchase of 10 new sets of trains to further enhance services on the Island Line, Kwun Tong Line, Tsuen Wan Line and Tseung Kwan O Line.

Our commitment to excellent service was again widely recognised with the winning of a number of prestigious awards. These included the Best Metro Asia Pacific Award at the Metro Awards 2008 held in Denmark, where we were ranked the leader in the Asia-Pacific region as judged by criteria such as efficiency, customer service, environmental considerations, and safety and security. We also won the Bronze Award in the Customer Service Excellence Awards 2007 organised by The Hong Kong Association for Customer Service Excellence Limited.

Marketing and Promotion

Service promotions on the Integrated MTR System continued to underpin patronage growth. The MTR Club has been extended to the former KCRC network after the Rail Merger, and a new Bonus Point programme was rolled out in June. For Cross-boundary Service, free ride promotions were offered to the new Lok Ma Chau Station to the general public in January and February, and to shareholders and targeted MTR Club members from March to July. For the Airport Express service, joint promotion with Priceline to offer discounted travel packages was launched from mid-March to the end of May, whilst shareholders promotions offering a discount of 34% continued.

New fare saver machines for Adult Octopus cardholders were installed at Kwai Chung Estate Shopping Centre and Panda Place in Tsuen Wan in February and March respectively, bringing the number of fare saver machines throughout Hong Kong to 22 and the number of passengers using such machines to over 17.4 million in the first half of 2008.

Station Commercial and Rail Related Businesses

Revenue for our station commercial and rail related businesses in the first half of 2008 was HK$1,645 million representing an increase of 123.8 % over the comparable period in 2007. The increase would have been 46.7% over the combined revenue of MTR Corporation and KCRC for such businesses in the comparable period in 2007 (Pre-Merger Comparable Revenue).

Station retail revenue in the first half of 2008 was HK$774 million representing an increase of 272.1% over the comparable period in 2007 (65.0% increase over the equivalent Pre-Merger Comparable Revenue). This increase was due to increased retail area from the Rail Merger and higher income from Duty Free shops. Twelve new shops were completed at Kowloon, Ngau Tau Kok, Wong Tai Sin and Tai Po Market stations during the six months and 10 new trades were added. The total number of shops as at 30 June 2008 decreased slightly to 1,211 from 1,230 as at the end of 2007, as a result of the removal of old shops to facilitate renovation works, which are currently being undertaken in the retail zones of Kowloon Tong, Kwun Tong, Mong Kok East, Tai Po Market and Tiu Keng Leng stations. Total area of station retail space at 30 June 2008 was 52,727 square metres.

Advertising revenue in the first half of 2008 was HK$346 million representing an increase of 39.5% when compared with the same period in 2007 (20.1% increase over the equivalent Pre-Merger Comparable Revenue). This increase was mainly due to higher passenger volumes and more innovative advertising formats, which included the renovated advertising "gallery" launched at the lower adit of Causeway Bay Station in May.

Revenue from telecommunications services in the first half of 2008 was HK$129 million representing an increase of 17.3% when compared with the same period in 2007 (decrease of 1.5% over the equivalent Pre-Merger Comparable Revenue). Cannibalisation of call minutes by 3G mobile services continued to erode revenue in this business, leading to revenue decrease when compared with the equivalent Pre-Merger Comparable Revenue. The 3G upgrade project at East Rail Line tunnels was completed in early June 2008 and passengers can now enjoy uninterrupted 3G service along the whole East Rail Line. Preparation works for 3G coverage at East Tsim Sha Tsui Station, Ma On Shan Line and West Rail Line are in progress with expected completion by 2009.

Revenue from consultancy was HK$64 million during the first six months, a decrease of 22.0% when compared with the same period in 2007. This was mainly due to the completion of the majority of works on Shanghai Metro Line 9 Phase 1, which was opened in December 2007, and our re-focusing of consultancy projects that could lead to future investment opportunities. In India, our consultancy business won an HK$128 million engineering and project management contract for the construction of the Delhi Airport Metro Express Line. In Taiwan, the Red Line of Kaohsiung Rapid Transit Corporation (KRTC) opened in April 2008 and our contribution was highly recognised by KRTC.

Property and Other Businesses

The Hong Kong property market saw broad based strength in the early part of the year. The office and retail markets enjoyed steady growth due to limited supply in the core business areas and strong consumer and tourist spending. However, with rising oil prices, inflation and global credit market uncertainties, market activities have reduced with transaction prices and rents consolidating towards the end of the first half of 2008.

Property Development

There was significant success in property sales, with the pre-sale of all 2,096 units of The Capitol at LOHAS Park as well as more than 1,100 units, or about 80% of the 1,375 units available, sold at The Palazzo in Shatin. The timing of profit booking for these two developments will depend on the issuance of Occupation Permits.

Tseung Kwan O, East Rail, Ma On Shan and West Rail Lines Property Developments (Packages Awarded and to be Completed)

Location	Developers	Type	Gross floor area (sq. m.)	No. of parking spaces	Status	Expected completion date
Tseung Kwan O Station						
Area 56	Sun Hung Kai Properties Ltd.	Residential Hotel Retail Office Car park	80,000 58,130 20,000 5,000	363	Awarded in February 2007	2011
Area 86 (LOHAS Park)						
Package One (The Capitol)	Cheung Kong (Holdings) Ltd.	Residential Retail Car park Residential Care Home for the Elderly	136,240 500 3,100	325	Awarded in January 2005	2008
Package Two	Cheung Kong (Holdings) Ltd.	Residential Kindergarten Car park	309,696 800	905	Awarded in January 2006	By phases from 2009-2010
Package Three	Cheung Kong (Holdings) Ltd.	Residential Kindergarten Car park	128,544 1,000	350	Awarded in November 2007	2012
Fo Tan Station						
Ho Tung Lau (The Palazzo)	Sino Land Company Limited	Residential Retail Car park	120,900 2,000	239	Awarded in November 2002	2008
Wu Kai Sha Station	Sino Land Company Limited	Residential Retail Kindergarten Car park	168,650 3,000 1,000	409	Awarded in July 2005	2009
Tai Wai Maintenance Centre	Cheung Kong (Holdings) Ltd.	Residential Car park	313,955	711	Awarded in April 2006	By phases from 2009-2011
Che Kung Temple Station	New World Development Co. Ltd.	Residential Retail Kindergarten Car park	89,792 193 670	256	Awarded in April 2008	2012
Tuen Mun Station*	Sun Hung Kai Properties Ltd.	Residential Retail Car park	119,512 25,000	384	Awarded in August 2006	By phases from 2012-2013

* as development agent for the Government of HKSAR

Tseung Kwan O and Ma On Shan Lines, Light Rail and Kowloon Southern Link Property Developments (Packages to be Awarded)**

Location	No. of packages envisaged	Type	Gross floor area (sq. m.)	Expected No. of parking spaces	Period of package tenders	Expected completion date
LOHAS Park	6 – 10	Residential	1,025,220 – 1,035,220		2009-2015	2019
		Retail	39,500 – 49,500			
		Car park		3,303 (max.)		
Tai Wai Station	1-2	Residential	190,480		Under review	Under review
		Retail	62,000			
		Kindergarten	1,100			
		Car park		713		
Tin Shui Wai Light Rail Terminus	1	Residential	91,051		Under review	Under review
		Retail	205			
		Car park		267		
West Kowloon Station, Site C & Site D Tsim Sha Tsui	2	Residential	104,795		Under review	Under review
		Retail	20,959			
		Car park		321		

** Subject to review in accordance with planning approval, land grant conditions and completion of statutory processes

In our property tendering activities, the development package for Che Kung Temple on the Ma On Shan Line was awarded to a subsidiary of New World Development Company Limited (Deluxe Sign Limited) in April 2008. Similar to the arrangements for LOHAS Park Package 1, The Capitol, we have decided to pay half of the land premium for this development in return for a larger share of profits.

Profit on property development for the first six months of 2008 was HK$348 million, a decrease when compared with that of HK$1,664 million in the comparable period in 2007. This decrease was mainly timing related as profit booking for The Capitol and The Palazzo will take place later. The major contributors to the property development profit in the first half were sale of units in properties held for sale at Harbour Green and The Arch, as well as deferred income recognition mainly from properties along the Airport Railway, such as Coastal Skyline and Caribbean Coast at Tung Chung Station and Elements in Kowloon Station.

Property Rental, Management and Other Businesses

Total revenue from property rental, property management and other businesses was HK$1,290 million, an increase of 48.3% over the comparable period in 2007 (26.7% increase over the equivalent Pre-Merger Comparable Revenue).

Demand for both office and retail space was robust and property rental income was HK$1,119 million, an increase of 57.6 % over the comparable period in 2007 (32.9% increase over the equivalent Pre-Merger Comparable Revenue). The average increase in rental of retail properties on renewal of leases or re-letting was 21% as compared to rentals achieved in the previous lettings.

Pre-lease of Phase 2 of Elements, our premium shopping centre in Hong Kong, reached over 70% with the opening date targeted to be in the fourth quarter of 2008.

Property management revenue in the first half of 2008 was HK$103 million, an increase of 28.8% over the same period in 2007 (7.3% increase over the equivalent Pre-Merger Comparable Revenue). The number of residential units under our management totalled 73,947 as at the end of June, whilst commercial space under management was 756,556 square metres.

Ginza Mall, which opened in January 2007, set a new benchmark for service and quality standards of shopping malls in Beijing. Patronage and retail sales of Ginza Mall continued to rise and the shopping centre was widely recognised by receiving various awards and honours in its first full year of operation. These included being ranked No. 2 amongst the 156 major shopping centres and department stores in Beijing in a Customer Satisfaction Survey conducted by the Beijing Municipal Commerce Bureau.

"Six new rail projects are now under various stages of planning and construction in Hong Kong… these new lines represent the most significant network construction in the Company's history and will add substantially to our growth."

At the end of June 2008, the Company's attributable share of investment properties were 200,668 square metres of lettable floor area of retail properties, 41,215 square metres of lettable floor area of offices and 10,203 square metres for other usage.

Octopus

Octopus continued its retail merchant expansion helped by the "Portable Octopus Processor", which enables Octopus to extend its reach into the small to medium-sized retail market sector. By the end of June, the total number of service providers (including those serviced by Octopus-appointed acquirers) had risen significantly to 2,636 from 724 as at the end of June 2007.

The Company's share of Octopus' net profit for the six months was HK$78 million, an 85.7% increase over the comparable period in 2007. Cards in circulation rose to 17.4 million and average daily transaction volume and value rose by 5.1% and 9.9% to 10.4 million and HK$86.2 million respectively.

Ngong Ping 360

The Ngong Ping cable car and associated theme village on Lantau Island contributed HK$68 million of revenue in the first six months of 2008, with visitor numbers reaching more than 770,000. Joint promotions were held together with Elements, Maritime Square and the MTR Club and a private cabin service was introduced.

Hong Kong Network Expansion

New Projects

Six new rail projects are now under various stages of planning and construction in Hong Kong, which will extend our network by approximately 60 kilometres when completed. These new lines represent the most significant network expansion in the Company's history and will add substantially to our growth.

In March, Government gave approval to proceed with further planning and design for the Shatin to Central Link and the Kwun Tong Line Extension to Whampoa. The Shatin to Central Link comprises two sections that will add 17 kilometres to the railway network, creating a number of new interchanges and connections forming both a north-south and an east-west rail corridor. The 11-km Tai Wai to Hung Hom Section, expected to be completed in 2015, will extend the Ma On Shan Line to Hung Hom via Diamond Hill with four new stations in East Kowloon, to link with the West Rail Line at Hung Hom. The 6-km Cross Harbour Section, expected to be completed in 2019, will form Hong Kong's fourth rail harbour crossing, extending the East Rail Line from Hung Hom to Hong Kong Island with new stations initially at Exhibition and Admiralty. Preliminary design for the Shatin to Central Link will commence in August this year with a view to developing a scheme to be gazetted under the Railways Ordinance in 2009.

The 3-km Kwun Tong Line Extension will run from the existing Yau Ma Tei Station to Whampoa via Ho Man Tin, which will be an interchange station with the Tai Wai to Hung Hom Section of the

Shatin to Central Link. This extension will provide a much needed railway service to the 146,000 people living in these areas and will relieve road traffic congestion in the existing east-west corridors in Kowloon. With this extension, passengers from Whampoa and Ho Man Tin will be able to reach Mong Kok via Ho Man Tin in five minutes. MTR Corporation commenced site investigation and preliminary design for the project in June 2008 and the project is expected to be completed in 2015.

In April, Government asked us to proceed with planning and design for the Express Rail Link, which will further enhance the strategic position of Hong Kong as the southern gateway of the Mainland of China. The 26-km Express Rail Link will provide cross-boundary high speed rail service connecting Hong Kong to Shenzhen, Guangzhou and the Mainland of China's new high speed intercity rail network. Preliminary design has started and construction is expected to commence in late 2009 for completion by 2015. When the Hong Kong section commences service, it will take only 14 minutes to travel from the new West Kowloon Terminus to Futian in Shenzhen and 48 minutes to Guangzhou. Long haul journeys will take about five hours to Wuhan, eight hours to Shanghai and 10 hours to Beijing.

Following the announcement of Government's support for the South Island Line (East) in December 2007, preliminary design commenced in February this year. The West Island Line, which will extend the Island Line with three new underground stations at Sai Ying Pun, University (at The University of Hong Kong) and Kennedy Town, was gazetted under the Railways Ordinance in October 2007. A preliminary project agreement was entered into with Government in February this year for the detailed design of the project.

The tunnel boring works for the Kowloon Southern Link, which will connect the existing East Rail Line's East Tsim Sha Tsui Station with West Rail Line's Nam Cheong Station, were completed in March. Kowloon Southern Link, which forms part of the Rail Merger, is on schedule for completion in the second half of 2009.

Apart from these six new lines, Phase 2 of the Tseung Kwan O line, namely the station at LOHAS Park, is on programme for completion in the second quarter of 2009 to coincide with occupation of The Capitol at LOHAS Park, which is expected in mid-2009. A decision on the actual opening date of the station will be taken closer to the time.

Project Funding

As previously mentioned, the funding model for all these new rail projects will take different forms, each appropriately designed for the project. For the West Island Line, Government has advised that it will consider a capital grant model whereby Government grants to the Company a sum of money to establish the financial viability of the project. The Company will be responsible for the balance of the capital costs and all of the operation, maintenance and asset replacement costs. The first part of this grant, HK$400 million, was received in February 2008 while the remaining portion, which forms the bulk of the total capital grant, is still being discussed with Government.

The South Island Line (East) and the Kwun Tong Line Extension will likely follow the Company's traditional "Rail and Property" approach whereby property development rights will be granted to us. Suitable sites have been identified and negotiations with Government on the development rights are continuing.

A third model for future rail lines is the Service Concession model used in the Rail Merger, whereby Government pays for the initial capital costs of the rail line, with MTR Corporation being entrusted to design and construct such lines, and the Company paying an annual concession payment to operate the line as well as being responsible for maintenance and replacement costs. The Kowloon Southern Link, Shatin to Central Link and the Express Rail Link will all adopt this approach. On this basis, the Finance Committee of the Legislative Council of Hong Kong (LegCo) approved an amount of HK$2.4 billion in May to be used for design and site investigation of the Shatin to Central Link and an amount of HK$2.8 billion in July for similar works for the Express Rail Link. Further funding requests for construction of these two lines will be made by Government to LegCo at the appropriate time. The construction of Kowloon Southern Link is being funded by KCRC per the Rail Merger agreement.

Mainland and Overseas Expansion

We continue to make progress in expansion both in the Mainland of China and overseas.

Mainland of China

In Beijing, the Public-Private-Partnership company comprising MTR Corporation (49%), Beijing Infrastructure Investment Co. Ltd. (2%) and Beijing Capital Group (49%) made steady progress on the Beijing Metro Line 4 (BJL4) project.

Electrical & Mechanical (E&M) installation proceeded at 22 out of a total of 24 stations. All E&M Works contracts have been awarded and 98% of tunnel boring has been completed. Track laying commenced in March 2008. This line is planned to open in 2009.

In Shenzhen, we continued to support the Shenzhen Municipal Government in obtaining final approval for the Shenzhen Metro Line 4 (SZL4) project from the National Development and Reform Commission. Progress is being made.

We continue to seek investment opportunities in other cities in the Mainland of China. In May, we submitted an investment proposal to the Hangzhou Development and Reform Commission regarding investment in Hangzhou Metro Line 1, which will be 48-km long with 30 stations and is targeted for opening in 2011. We were informed in July that we had been selected as "preferred bidder" for this project. In June, we signed two Framework Agreements with the Shenyang Municipal Government relating to cooperation on the operation of Shenyang Metro Lines 1 and 2, and investment in Metro Lines 3 to 5.

Overseas

In the UK, our 50:50 joint venture London Overground Rail Operations Limited made good progress in the first six months of operation. Punctuality improved while station enhancement and service improvement continued.

Financial Review

The Rail Merger together with a strong economy contributed to total revenue increasing 75.7% to HK$8,527 million in the first half of 2008 as compared to the same period last year with total fare revenue increasing by 72.2% to HK$5,592 million. Fare revenues from the Domestic Service and Airport Express, driven by patronage increases of 36.3% and 8.1% respectively, rose by 31.2% and 8.3% to HK$3,850 million and HK$338 million while Cross-boundary, Light Rail, Intercity and Bus services added another HK$1,404 million to fare revenue. Revenue from station commercial and rail related businesses increased by 123.8% to HK$1,645 million as the expanded network after the Rail Merger brought in additional income, particularly in the Duty Free area, while the robust retail market also benefited advertising and other station commercial businesses. Property rental, management and other revenue increased by 48.3% to HK$1,290 million mainly due to the expansion of the rental and management portfolio as well as favourable rental renewals and new lettings.

Operating expenses before depreciation, amortisation and merger expenses for the first half of 2008 increased by 81.6% to HK$3,731 million when compared to the same period last year. The increase was predominantly due to the Rail Merger as well as increases in salaries, electricity tariff as well as fuel and other consumable materials. As a result, operating profit from railway and related businesses before depreciation, amortisation and merger expenses increased by 71.5% to HK$4,796 million, with margin decreasing to 56.2% from 57.6% in the first half last year. The margin decrease was due to the lower margins of the ex-KCRC businesses and the effect of fare reduction. However, it does represent an improvement of 3% points from the Pre-Merger Comparable margin.

Property development profit for the first half of 2008 amounted to HK$348 million, mainly comprising sales of units in inventory at Harbour Green and The Arch along the Airport Railway, as well as deferred income recognition from Coastal Skyline, Caribbean Coast and Elements. Operating profit before depreciation, amortisation and merger expenses increased 15.3% to HK$5,144 million compared with the same period last year.

Depreciation and amortisation charges for the first half of 2008 increased by 12.5% to HK$1,517 million mainly due to the amortisation of service concession assets from the Rail Merger. Expenses relating to merger integration activities amounted to HK$24 million. Net interest and finance charges increased by 64.8% to HK$1,078 million mainly due to the notional interest expense of HK$361 million resulting from the capitalisation of the fixed annual payments from the Rail Merger, and expenses of HK$93.5 million for replacement of collaterals for the lease out/lease back transaction following the recent credit downgrading of certain existing collaterals. The increase in fair value of investment properties since the end of 2007 amounted to HK$2,080 million pre-tax and HK$1,737 million post-tax.

Including the share of profits of HK$91 million from Octopus Holdings Limited and London Overground Rail Operations Limited, profit before tax for the first half of 2008 was HK$4,696 million. With the reduction in profits tax rate from 17.5% to 16.5%, deferred tax liability reduced by HK$704 million and therefore, after charging tax liability of HK$712 million for the period, net income tax for the first half of 2008 amounted to HK$8 million. Net profit attributable to shareholders for the first half of 2008 amounted to HK$4,689 million, an increase of 15.2% over the same period last year. Reported earnings per share increased from HK$0.73 to HK$0.83. Excluding investment property revaluation gain and related deferred tax, net profit from underlying business increased by 33.2% to HK$2,731 million with earnings per share on the same basis increasing from HK$0.37 to HK$0.49. On a pre-tax basis, net pre-tax profit from underlying business increased by 4.7% from HK$2,500 million to HK$2,617 million.

The Directors have declared an interim dividend of HK$0.14. As with previous dividend payments, a scrip dividend option will be offered to all shareholders except those with registered addresses in the United States of America or any of its territories or possessions. The Company's major shareholder, the Financial Secretary Incorporated (FSI), has agreed to receive its entitlement to dividends in the form of shares to the extent necessary to ensure that a maximum of 50% of the Company's total dividend will be paid in cash.

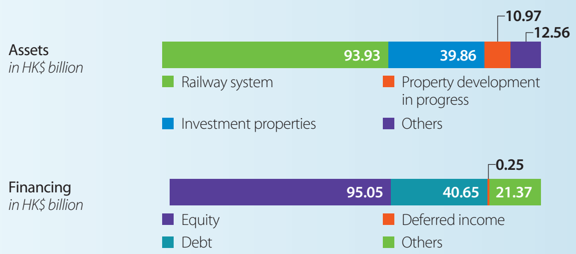
The Group's balance sheet remains strong. Net assets of the Group increased by 4.4% during the first half of 2008 to HK$95,053 million at 30 June 2008. Total assets increased by 1.1% to HK$157,319 million mainly attributable to property revaluation gains of HK$2,154 million as well as an increase of HK$1,907 million in property development in progress largely due to the payment of 50% of the land premium for the Che Kung Temple property development. Other increases in assets included capital expenditures incurred on the station at LOHAS Park, Shenzhen Metro Line 4 Project and other new railway extensions and capital improvement projects as well as equity injection into the associate company for the Beijing Metro Line 4 Project. Debtors, deposits and payments in advance decreased by HK$2,696 million mainly due to the receipt of further stage payment proceeds from the Le Point property development.

During the period, total borrowing of the Group decreased from HK$34,050 million to HK$29,978 million on repayment of loans from net cash generated in our businesses. Including obligations under service concession as a component of debt, net debt-to-equity ratio of the Group decreased from 48.5% at 31 December 2007 to 42.1% at 30 June 2008.

In line with the increase in operating profits, net cash inflow generated from operating activities for the first half of 2008 increased by 56.6% to HK$4,669 million. Cash receipts from our property development business amounted to a further HK$3,222 million mainly from Le Point, The Arch and Harbour

Simplified Balance Sheet

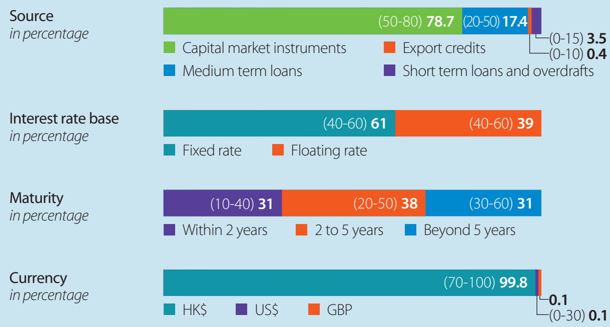
As at 30 June 2008



Preferred Financing Model and Debt Profile

(Preferred Financing Model) vs. **Actual debt profile**

As at 30 June 2008



Green. During the period, the first part of Government's capital grant for the West Island Line Project of HK$400 million was received. Including the receipts of inter-company loan repayments and dividends totalling HK$132 million from the Company's non-controlled subsidiary and associate, cash inflow for the Group increased by 37.7% to HK$8,423 million. Cash outflow for capital expenditures during the period increased to HK$1,481 million from HK$786 million for the same period last year mainly due to increases in payments for the West Island Line and Shenzhen Metro Line 4 Projects coupled with increase in purchase of railway operational assets after the Rail Merger. Cash outflow on property fitting out works and development projects increased to HK$449 million mainly due to payments of enabling works costs on the Che Kung Temple development to KCRC per the Rail Merger Agreement. After deducting further investment in our Beijing Metro Line 4 associate of HK$515 million, payments for merger related expenditures of HK$204 million, net interest payment of HK$630 million and dividend payment of HK$870 million, net cash inflow generated during the first half of 2008 amounted to HK$4,242 million, of which HK$4,183 million was used to reduce borrowing.

Financing Activities

The subprime mortgage crisis continued, causing credit market conditions to deteriorate in Hong Kong. Liquidity has reduced and credit spreads have widened. Despite this, the Group took advantage of market opportunities to issue a total of HK$1.25 billion of fixed rate medium term notes. These notes were converted to floating rate liabilities after issuance at very attractive margins to the Hong Kong Interbank Offered Rate and were used to refinance more expensive existing bank borrowings.

As at the end of June 2008, the Group had total undrawn committed facilities of HK$10.7 billion. With strong positive cash flow projected for the rest of 2008 and in 2009, these undrawn facilities would be used mainly to meet unexpected demands, if any.

During the period, we continued to manage our debt portfolio in a prudent manner in accordance with the Preferred Financing Model to achieve adequate risk diversification. As at the end of June 2008, the Company's debt maturity profile was well balanced with 31% of total outstanding repayable within 2 years, 38% between 2 and 5 years, and 31% beyond 5 years while more than 99% of the portfolio was either hedged into or denominated in

Hong Kong dollars. Approximately 40% of our loans outstanding are in floating rate. With continued interest rate cuts in the early part of 2008, the Group's average borrowing cost during the first half of 2008 declined to 4.7%, compared with 5.7% during the same period last year.

Human Resources

With the successful completion of the Rail Merger, our key priorities are to harmonise staff relations to ensure a stable workforce, to retain staff resources, particularly in view of the thriving employment market, and to develop high-quality talent for supporting business growth in the post-merger era.

As mentioned earlier, the selection and appointment process for all staff was completed in April. The new grading and salary structure as well as aligned terms and conditions of employment regarding all staff were implemented on 1 March 2008.

To recognise staff's contribution and support to the Company throughout the merger process, a celebration event for all staff of the enlarged company was organised in January 2008. In addition, special Grand Awards will be given to the winning teams that have been nominated to recognise their outstanding contributions to the success of the Rail Merger.

In the first six months of 2008, we provided proactive and timely training to meet post Rail Merger challenges, particularly in the areas of railway operations and maintenance, railway safety, multi-skilling, redeployment and new recruits. In addition, intensive training with job attachment in Hong Kong was provided to Mainland local recruits for BJL4 and SZL4 to ensure quality teams will be in place for operational readiness of these two key investment projects. Training resources were also mobilised to support the six new extension projects for the Hong Kong network and a number of overseas growth business projects, including the Delhi Airport Metro Express Line consultancy project.

Outlook

Uncertainties continue in the global markets with high oil prices, slowing economic growth, credit concerns and increasing inflation. The extent of the impact of these global forces on Hong Kong has still to be seen. It is anticipated that the rate of growth of the Hong Kong economy can slow down in the second half of 2008.

The significant contribution of the Rail Merger, already demonstrated in the first half, will also be reflected in the second half of 2008 and full year results. Margins however will face erosion with increasing costs and the impact of lower margins of the ex-KCRC business. Our station commercial and related businesses will continue to benefit from any economic growth.

In our property rental business, we should see the opening of Elements Phase 2 toward the end of 2008.

The successful pre-sale of The Capitol at LOHAS Park and The Palazzo in Shatin will lead to significant profit bookings when Occupation Permits for these developments are issued. In our property tender activities, following Expression of Interest received earlier, we will shortly tender Tsuen Wan 7, which is a West Rail Development site belonging to Government; MTR Corporation acts only as an agent for the West Rail Development projects.

The smooth integration from the Rail Merger demonstrates the dedication, commitment and "one company" mind-set of the staff of MTR Corporation. This, together with their overwhelming support in aid of the Sichuan earthquake victims, deserves praise and recognition. Therefore, in addition to thanking my fellow directors, I would also like to specially thank the staff of MTR Corporation. They are the heroes of the Company.

C K Chow, *Chief Executive Officer*
Hong Kong, 5 August 2008

Key Figures

	Half year ended 30 June 2008	Half year ended 30 June 2007	% Increase/ (Decrease)
Financial Highlights *in HK$ million*			
Revenue			
– Fare	**5,592**	3,247	72.2
– Non-fare	**2,935**	1,605	82.9
Operating profit from railway and related businesses before depreciation and amortisation	**4,796**	2,797	71.5
Profit on property developments	**348**	1,664	(79.1)
Operating profit before depreciation and amortisation	**5,144**	4,461	15.3
Profit attributable to equity shareholders	**4,689**	4,071	15.2
Profit attributable to equity shareholders (excluding change in fair value of investment properties and related deferred tax)	**2,731**	2,050	33.2
Total assets	**157,319**	155,668*	1.1
Loans, obligations under finance leases and bank overdrafts	**29,978**	34,050*	(12.0)
Obligations under service concession	**10,671**	10,685*	(0.1)
Total equity attributable to equity shareholders	**95,029**	91,014*	4.4
Financial Ratios *in %*			
Operating margin	**56.2**	57.6	(1.4)% pts.
Net debt-to-equity ratio	**42.1**	48.5*	(6.4)% pts.
Interest cover *in times*	**4.2**	5.7	(1.5) times
Interest cover (excluding impact of change in fair value of derivative instruments) *in times*	**4.3**	6.1	(1.8) times
Share Information			
Basic earnings per share *in HK$*	**0.83**	0.73	13.7
Basic earnings per share (excluding change in fair value of investment properties and related deferred tax) *in HK$*	**0.49**	0.37	32.4
Dividend per share *in HK$*	**0.14**	0.14	–
Share price at 30 June *in HK$*	**24.55**	18.52	32.6
Market capitalisation at 30 June *in HK$ million*	**138,582**	103,500	33.9
Operations Highlights			
Total passenger boardings			
– Domestic Service *in millions*	**585.2**	429.3	36.3
– Cross-boundary Service *in millions*	**46.0**	–	N/A
– Airport Express *in thousands*	**5,230**	4,836	8.1
– Light Rail *in millions*	**66.5**	–	N/A
Average number of passengers *in thousands*			
– Domestic Service *weekday*	**3,441**	2,544	35.3
– Cross-boundary Service *daily*	**253**	–	N/A
– Airport Express *daily*	**28.7**	26.7	7.5
– Light Rail *weekday*	**374**	–	N/A
Fare revenue per passenger *in HK$*			
– Domestic Service	**6.58**	6.84	(3.8)
– Cross-boundary Service	**24.27**	–	N/A
– Airport Express	**64.72**	64.40	0.5
– Light Rail	**2.87**	–	N/A
Proportion of franchised public transport boardings (January to May) *in %*	**41.6**	25.0	16.6% pts.

* Figures as at 31 December 2007

Corporate Governance and Other Information

Corporate Governance Practices

The Company is committed to ensuring high standards of corporate governance in the interests of shareholders and devotes considerable effort to identifying and formalising best practices.

The Company has complied throughout the half-year ended 30 June 2008 with the Code Provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except that, with respect to Code Provision A.4.1, non-executive Directors of the Company are not appointed for a specific term but are subject (save for those appointed pursuant to Section 8 of the Mass Transit Railway Ordinance (Cap. 556 of the Laws of Hong Kong) (the "MTR Ordinance")) to retirement by rotation and re-election at the Company's annual general meetings in accordance with Articles 87 and 88 of the Company's Articles of Association. As there are currently nine Directors subject to the requirement to retire by rotation, and one-third of them shall retire at each annual general meeting of the Company (subject to re-election by the shareholders), each of these Directors is effectively appointed for a term of approximately three years.

A person may be appointed as a Member of the Board at any time either by the shareholders in general meeting or by the Board upon recommendation of the Nominations Committee of the Company. Directors who are appointed by the Board must retire at the first annual general meeting after their appointment. A Director who retires in this way is eligible for election at that annual general meeting, but is not taken into account when deciding which and how many Directors should retire by rotation. In either case, the Directors so elected and appointed are eligible for re-election and re-appointment. At each annual general meeting of the Company, one third of the Directors (or, if the number of Directors is not divisible by three, such number as is nearest to and less than one third) must retire as Directors by rotation.

The Chief Executive of the Hong Kong Special Administrative Region of the People's Republic of China ("HKSAR") may, pursuant to Section 8 of the MTR Ordinance, appoint up to three persons as "additional Directors". Directors appointed in this way may not be removed from office except by the Chief Executive of the HKSAR. These Directors are not subject to any requirement to retire by rotation nor will they be counted in the calculation of the number of Directors who must retire by rotation. In all other respects, the "additional Directors" are treated for all purposes in the same way as other Directors.

Dr. Raymond Ch'ien Kuo-fung, a Member of the Board since 1998, was appointed by the Government of the HKSAR (the "Government") on 8 August 2007 as the non-executive Chairman of the Company for a term of 24 months with effect from the Rail Merger which took effect from 2 December 2007. Dr. Ch'ien was first appointed as the non-executive Chairman of the Company with effect from 21 July 2003 for a term of three years, which was renewed in 2006 for a further term up to 31 July 2007. In July 2007, Dr. Ch'ien was re-appointed as the non-executive Chairman of the Company with effect from 1 August 2007 for a term up to 31 December 2007 or the day to be appointed by the Secretary for Transport and Housing ("S for T&H") by notice published in the Gazette under the Rail Merger Ordinance, whichever was the earlier. The Rail Merger Ordinance relates to the Rail Merger between the Company and KCRC.

Mr. Chow Chung-kong, a Member of the Board since 2003, was selected by the Government on 8 August 2007 as the Chief Executive Officer of the Company after the Rail Merger. Mr. Chow was first appointed as the Chief Executive Officer of the Company with effect from 1 December 2003 for a term of three years. His contract as the Chief Executive Officer of the Company was renewed for a further term of three years with effect from 1 December 2006.

With effect from the conclusion of the 2008 Annual General Meeting on 29 May 2008 (the "2008 AGM"), Mr. David Gordon Eldon resigned as an independent non-executive Director, while Mr. Lo Chung-hing retired as an independent non-executive Director by rotation pursuant to Articles 87 and 88 of the Articles of Association of the Company, and did not offer himself for re-election.

Mr. Patrick Ho Chung-kei and Miss Chu Man-ling ceased to hold the posts of Deputy Secretary for Transport and Housing (Transport) ("DS for T&H") and accordingly ceased to be Alternate Directors to the office of the S for T&H (held by Ms. Eva Cheng) on 1 January 2008 and 10 June 2008 respectively. Miss Shirley Yuen has, by virtue of her appointment to the post of DS for T&H, become an Alternate Director to the office of the S for T&H with effect from 10 June 2008.

Mr. Lincoln Leong Kwok-kuen, who joined the Company in February 2002 as the Finance Director, was re-titled the Finance and Business Development Director on 1 May 2008 to reflect his additional role in overseeing growth business in the Mainland of China and overseas.

Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code")

The Company has adopted the Model Code and, having made specific enquiry, confirms that Members of the Board and the Executive Directorate complied throughout the half-year ended 30 June 2008 with the Model Code set out in Appendix 10 to the Listing Rules. Senior managers and some staff who, because of their office in the Company, are likely to be in possession of unpublished price sensitive information, have been requested to comply with the provisions of the Model Code.

Audit Committee

The Audit Committee normally meets four times each year with the purpose of monitoring the integrity of the Group's financial statements and to consider the nature and scope of internal and external audit reviews. It also assesses the effectiveness of the systems of internal control. The Terms of Reference of the Audit Committee were revised in December 2007 to increase the number of Committee members from three to four non-executive Directors. In April 2008 and for the purpose of improving clarity, the Terms of Reference were further revised. The updated Terms of Reference are available on the Company's website. All the Members of the Audit Committee are non-executive Directors, namely T. Brian Stevenson (chairman), Professor Cheung Yau-kai, Ng Leung-sing and the Commissioner for Transport (Alan Wong Chi-kong). Mr. Stevenson, Professor Cheung and Mr. Ng are also independent non-executive Directors.

Remuneration Committee

The Remuneration Committee meets regularly to consider remuneration issues and its principal responsibilities include formulating a remuneration policy and practices that facilitate the employment of top quality personnel, recommending to the Board the remuneration of the Members of the Board who are non-executive Directors, determining the remuneration packages of the Members of the Board who are executive Directors and other Members of the Executive Directorate, and reviewing and approving performance-based remuneration by reference to the Company's goals and objectives. All the Members of the Remuneration Committee are non-executive Directors, namely Edward Ho Sing-tin (chairman), T. Brian Stevenson and Professor Chan Ka-keung, Ceajer. Mr. Ho and Mr. Stevenson are also independent non-executive Directors.

Nominations Committee

The Nominations Committee nominates and recommends to the Board candidates for filling vacancies on the Board, and the positions of Chief Executive Officer ("CEO"), Finance Director ("FD") and Chief Operating Officer ("COO") (provided that the COO position exists). For the positions of FD and COO, the Committee may consider candidates recommended by the CEO, or any other candidates (provided that the CEO shall have the right to first agree to such other candidates).

The Committee consists of seven non-executive Directors, four of whom are independent non-executive Directors. As mentioned on page 19, both Mr. David Gordon Eldon (chairman) and Mr. Lo Chung-hing served the Committee up to the conclusion of the 2008 AGM. Mr. Edward Ho Sing-tin succeeded Mr. Eldon as chairman and a Member of the Committee, while Mr. Ng Leung-sing was appointed as a Member of the Committee in place of Mr. Lo, both with effect from the conclusion of the 2008 AGM. The other five Members of the Nominations Committee are Dr. Raymond Ch'ien Kuo-fung, Christine Fang Meng-sang, Abraham Shek Lai-him, Professor Chan Ka-keung, Ceajer and the S for T&H (Ms. Eva Cheng). Mr. Ho, Mr. Ng, Ms. Fang, and Mr. Shek are also independent non-executive Directors.

Independent Committee

Following the completion of the Rail Merger, the Independent Committee of the Board which was established for the purpose of Rail Merger was formally disbanded in May 2008.

Internal Controls

The Board is responsible for the system of internal controls of the Company and its subsidiaries, setting appropriate policies and reviewing the effectiveness of such controls. Internal control is defined as a process effected by the Board, Management and other personnel, designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, and not absolute assurance of the following:

- effectiveness and efficiency of operations
- reliability of financial reporting
- compliance with applicable laws and regulations
- effectiveness of risk management functions

Pursuant to the Protocol adopted by the Board, the Board has delegated the day-to-day management of the Company's business to the Executive Committee, and focuses its attention on matters affecting the Company's overall strategic policies, finances and shareholders.

Supported by the Members of the Executive Committee, the Chief Executive Officer who chairs the Executive Committee is responsible to the Board for the conduct of the business of the Company. The Executive Committee is responsible for implementing the Board's policies on risk and control. In fulfilling its responsibilities, the Executive Committee identifies and evaluates the risks faced by the Company for consideration by the Board and designs, operates and monitors a suitable system of internal controls which implements the policies adopted by the Board. The Executive Committee is accountable to the Board for monitoring the system of internal controls and providing assurance to the Board that it has done so. Additionally, all employees have responsibility for internal controls within their areas of accountability.

Various risk management strategies have been established by the Board as advised by the Executive Committee to identify, assess and reduce risks, including construction, business operations, finance, treasury, safety and enterprise risks as well as to ensure appropriate insurance coverage.

The Company has established an Enterprise Risk Management ("ERM") framework for the strategic management of business risks. The framework covers all key business areas of the Company and provides a useful forum for communicating risk issues at different levels of the organization and thereby improves visibility on risk. The framework has been in operation since early 2006 and its application at divisional level has been further refined in 2007. Structured cross-discipline processes and organizations have been put in place at corporate and divisional levels for risk identification, mitigation and monitoring. A standard rating system is employed to establish a consistent set of risk measurement criteria across the Company and to prioritise risks for effective monitoring and reporting to the Executive Committee and the Board. A manual that governs the working of the ERM framework has been issued, and regular briefing sessions are conducted, to promulgate the application and ensure consistent understanding of ERM.

The operation of the ERM framework, which is overseen by the Enterprise Risk Committee, is underpinned by line management taking direct risk management responsibilities as risk owners. Changes to existing risks and the emergence of new risks are regularly reviewed by line management. Risks associated with major changes and new businesses such as the merger and local and overseas railway construction and investment projects have been assessed. The Enterprise Risk Management Department plays a central role in facilitating the risk workshops and reviewing existing and emerging business risks. The Enterprise Risk Committee reviews the operation of the ERM framework and key risks every three months.

The Executive Committee reviews significant risks half-yearly and the Board annually to ensure that such risks are under satisfactory control.

The Board also periodically reviews the implementation and the ERM organization and processes that have been put in place.

The Internal Audit Department plays a major role, independent of the Company's management, in assessing and monitoring the internal controls of the Company. The Head of Internal Audit reports to the Chief Executive Officer and has direct access to the Audit Committee. The Department has unrestricted access to information that allows it to review all aspects of the Company's risk management, control and governance processes.

On behalf of the Board, the Audit Committee evaluates annually the effectiveness of the Company's system of internal controls, including the reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws and regulations and effectiveness of risk management functions.

The Board has, through the Audit Committee, conducted the review of the effectiveness of the Company's system of internal controls for the year ended 31 December 2007, covering all material financial, operational and compliance controls, and risk management functions, and concluded that adequate and effective internal controls were maintained to safeguard the shareholders' investment and the Company's assets. There were no significant control failings, weaknesses or significant areas of concern identified during the year 2007 which might affect shareholders.

Board Members' and Executive Directorate's Interests in Shares

As at 30 June 2008, the interests or short positions of the Members of the Board and the Executive Directorate in the shares, underlying shares and debentures of the Company (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("HKSE") pursuant to the Model Code were as follows:

Long Positions in Shares and Underlying Shares of the Company

	Number of Ordinary Shares held			Derivatives: Share Options	Derivatives: Other		
Member of the Board or the Executive Directorate	Personal* interests	Family† interests	Corporate interests	Personal* interests	Personal* interests	Total interests	Percentage of aggregate interests to total issued share capital
Raymond Ch'ien Kuo-fung	50,945	–	–	–	–	50,945	0.00090
Chow Chung-kong	–	–	–	720,000 (Note 1)	418,017 (Note 2)	1,138,017	0.02016
T. Brian Stevenson	4,844	–	–	–	–	4,844	0.00009
Christine Fang Meng-sang	1,712	–	–	–	–	1,712	0.00003
Russell John Black	55,783	–	–	170,000 (Note 1)	–	225,783	0.00400
William Chan Fu-keung	46,960	–	–	(i) 217,500 (Note 3) (ii) 170,000 (Note 1)	–	434,460	0.00770
Thomas Ho Hang-kwong	376,658	2,541	–	170,000 (Note 1)	–	549,199	0.00973
Lincoln Leong Kwok-kuen	23,000	–	23,000 (Note 4)	(i) 1,043,000 (Note 5) (ii) 170,000 (Note 1)	160,000 (Note 6)	1,419,000	0.02514
Francois Lung Ka-kui	346,500	2,500	–	(i) 710,500 (Note 5) (ii) 130,000 (Note 1)	–	1,189,500	0.02107
Andrew McCusker	–	–	–	170,000 (Note 1)	–	170,000	0.00301
Leonard Bryan Turk	–	–	–	170,000 (Note 1)	–	170,000	0.00301
Ho Suen-wai (Note 7)	688	1,386	–	–	–	2,074	0.00004

Notes:

1 Further details of the above share options are set out in the table below showing details of the options to subscribe for ordinary shares granted under the 2007 Share Option Scheme.

2 Chow Chung-kong has a derivative interest in respect of 418,017 shares in the Company within the meaning of Part XV of the SFO. That derivative interest represents Mr. Chow's entitlement to receive an equivalent value in cash of 418,017 shares in the Company on completion of his three-year contract (on 30 November 2009).

3 Further details of the above share options are set out in the table below showing details of the options to subscribe for ordinary shares granted under the Pre-Global Offering Share Option Scheme.

4 The 23,000 shares are held by Linsan Investment Ltd., a private limited company beneficially wholly owned by Lincoln Leong Kwok-kuen.

5 Further details of the above share options are set out in the table below showing details of the options to subscribe for ordinary shares granted under the New Joiners Share Option Scheme.

6 Lincoln Leong Kwok-kuen has a derivative interest in respect of 160,000 shares in the Company within the meaning of Part XV of the SFO. That derivative interest represents Mr. Leong's entitlement to receive an equivalent value in cash of 160,000 shares in the Company on 9 April 2010.

7 The office of the Permanent Secretary for Transport and Housing (Transport) is an Alternate Director to the office of the Secretary for Transport and Housing (Eva Cheng). The Secretary for Transport and Housing is a non-executive Director of the Company. Ho Suen-wai is the holder of the post of the Permanent Secretary for Transport and Housing (Transport).

* Interests as beneficial owner

† Interests of spouse or child under 18 as beneficial owner

Options to subscribe for Ordinary Shares granted under the Pre-Global Offering Share Option Scheme

Executive Directorate and eligible employees	Date granted	No. of options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2008	Options vested during the period	Options lapsed during the period	Options exercised during the period	Exercise price per share of options (HK$)	Options outstanding as at 30 June 2008	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
William Chan Fu-keung	20/9/2000	1,066,000	5/4/2001 – 11/9/2010	217,500	–	–	–	8.44	217,500	–
Thomas Ho Hang-kwong	20/9/2000	1,066,000	5/4/2001 – 11/9/2010	321,000	–	–	321,000	8.44	–	26.05
Other eligible employees	20/9/2000	41,409,000	5/4/2001 – 11/9/2010	4,728,500	–	17,000	962,000	8.44	3,749,500	27.87

Note:

All of the above share options were vested on 5 October 2003. The proportion of underlying shares in respect of which the share options have vested is as follows:

Date	Proportion of underlying shares in respect of which an option is vested
Before 5 October 2001	none
5 October 2001 to 4 October 2002	one-third
5 October 2002 to 4 October 2003	two-thirds
After 4 October 2003	all

Options to subscribe for Ordinary Shares granted under the New Joiners Share Option Scheme

Executive Directorate and eligible employees	Date granted	No. of options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2008	Options granted during the period	Options vested during the period	Options lapsed during the period	Options exercised during the period	Exercise price per share of options (HK$)	Options outstanding as at 30 June 2008	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Lincoln Leong Kwok-kuen	1/8/2003	1,066,000	14/7/2004 – 14/7/2013	1,043,000	–	–	–	–	9.75	1,043,000	–
Francois Lung Ka-kui	22/3/2007	1,066,000	19/3/2008 – 19/3/2017	1,066,000	–	355,500	–	355,500	19.404	710,500	28.20
Other eligible employees	1/8/2003	495,200	14/7/2004 – 14/7/2013	202,200	–	–	–	–	9.75	202,200	–
	12/1/2006	94,000	9/1/2007 – 9/1/2016	62,500	–	31,500	31,000	31,500	15.45	–	31.35
	13/9/2005	94,000	9/9/2006 – 9/9/2015	94,000	–	–	–	45,000	15.97	49,000	27.05
	23/9/2005	213,000	9/9/2006 – 9/9/2015	213,000	–	–	–	–	15.97	213,000	–
	31/3/2006	94,000	20/3/2007 – 20/3/2016	94,000	–	31,500	–	–	18.05	94,000	–
	4/7/2006	94,000	19/6/2007 – 19/6/2016	94,000	–	–	62,500	31,500	18.30	–	29.55
	17/11/2006	94,000	13/11/2007 – 13/11/2016	62,500	–	–	–	–	19.104	62,500	–
	5/10/2006	94,000	29/9/2007 – 29/9/2016	94,000	–	–	–	–	19.732	94,000	–
	12/5/2006	266,500	25/4/2007 – 25/4/2016	266,500	–	89,000	–	–	20.66	266,500	–
	15/5/2006	213,000	25/4/2007 – 25/4/2016	213,000	–	71,000	–	30,000	20.66	183,000	31.60
	12/5/2006	213,000	2/5/2007 – 2/5/2016	213,000	–	71,000	–	–	21.00	213,000	–

Notes:

1 The exercise price of the share options is determined upon the offer of grant of the options and which should not be less than the greatest of (a) the average closing price per share of the Company for the five business days immediately preceding the date of offer of such options; (b) the closing price per share of the Company on the date of offer of such options, which must be a business day; and (c) the nominal value per share of the Company.

Notes: *(continued)*

2 The proportion of underlying shares in respect of which the above share options will vest is as follows:

Date	Proportion of underlying shares in respect of which an option is vested
Before the first anniversary of the date of offer of the option (the "Offer Anniversary")	none
From the first Offer Anniversary to the date immediately before the second Offer Anniversary	one-third
From the second Offer Anniversary to the date immediately before the third Offer Anniversary	two-thirds
From the third Offer Anniversary and thereafter	all

Options to subscribe for Ordinary Shares granted under the 2007 Share Option Scheme

Executive Directorate and eligible employees	Date granted	No. of options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2008	Options granted during the period	Options vested during the period	Options lapsed during the period	Options exercised during the period	Exercise price per share of options (HK$)	Options outstanding as at 30 June 2008	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Chow Chung-kong	13/12/2007	720,000	10/12/2008 – 10/12/2014	720,000	–	–	–	–	27.60	720,000	–
Russell John Black	12/12/2007	170,000	10/12/2008 – 10/12/2014	170,000	–	–	–	–	27.60	170,000	–
William Chan Fu-keung	13/12/2007	170,000	10/12/2008 – 10/12/2014	170,000	–	–	–	–	27.60	170,000	–
Thomas Ho Hang-kwong	12/12/2007	170,000	10/12/2008 – 10/12/2014	170,000	–	–	–	–	27.60	170,000	–
Lincoln Leong Kwok-kuen	12/12/2007	170,000	10/12/2008 – 10/12/2014	170,000	–	–	–	–	27.60	170,000	–
Francois Lung Ka-kui	12/12/2007	130,000	10/12/2008 – 10/12/2014	130,000	–	–	–	–	27.60	130,000	–
Andrew McCusker	12/12/2007	170,000	10/12/2008 – 10/12/2014	170,000	–	–	–	–	27.60	170,000	–
Leonard Bryan Turk	12/12/2007	170,000	10/12/2008 – 10/12/2014	170,000	–	–	–	–	27.60	170,000	–
Other eligible employees	11/12/2007	45,000	10/12/2008 – 10/12/2014	45,000	–	–	–	–	27.60	45,000	–
	12/12/2007	1,750,000	10/12/2008 – 10/12/2014	1,750,000	–	–	–	–	27.60	1,750,000	–
	13/12/2007	915,000	10/12/2008 – 10/12/2014	915,000	–	–	–	–	27.60	915,000	–
	14/12/2007	1,005,000	10/12/2008 – 10/12/2014	1,005,000	–	–	–	–	27.60	1,005,000	–
	15/12/2007	435,000	10/12/2008 – 10/12/2014	435,000	–	–	–	–	27.60	435,000	–
	17/12/2007	835,000	10/12/2008 – 10/12/2014	835,000	–	–	–	–	27.60	835,000	–
	18/12/2007	445,000	10/12/2008 – 10/12/2014	445,000	–	–	65,000	–	27.60	380,000	–
	19/12/2007	115,000	10/12/2008 – 10/12/2014	115,000	–	–	–	–	27.60	115,000	–
	20/12/2007	190,000	10/12/2008 – 10/12/2014	190,000	–	–	–	–	27.60	190,000	–
	21/12/2007	45,000	10/12/2008 – 10/12/2014	45,000	–	–	–	–	27.60	45,000	–
	22/12/2007	35,000	10/12/2008 – 10/12/2014	35,000	–	–	–	–	27.60	35,000	–
	24/12/2007	118,000	10/12/2008 – 10/12/2014	118,000	–	–	–	–	27.60	118,000	–
	28/12/2007	35,000	10/12/2008 – 10/12/2014	35,000	–	–	–	–	27.60	35,000	–
	31/12/2007	130,000	10/12/2008 – 10/12/2014	130,000	–	–	–	–	27.60	130,000	–

Options to subscribe for Ordinary Shares granted under the 2007 Share Option Scheme *(continued)*

Executive Directorate and eligible employees	Date granted	No. of options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2008	Options granted during the period	Options vested during the period	Options lapsed during the period	Options exercised during the period	Exercise price per share of options (HK$)	Options outstanding as at 30 June 2008	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Other eligible employees	2/1/2008	75,000	10/12/2008 – 10/12/2014	–	75,000	–	–	–	27.60	75,000	–
	3/1/2008	40,000	10/12/2008 – 10/12/2014	–	40,000	–	–	–	27.60	40,000	–
	4/1/2008	65,000	10/12/2008 – 10/12/2014	–	65,000	–	–	–	27.60	65,000	–
	7/1/2008	125,000	10/12/2008 – 10/12/2014	–	125,000	–	–	–	27.60	125,000	–
	28/3/2008	255,000	26/3/2009 - 26/3/2015	–	255,000	–	–	–	26.52	255,000	–
	31/3/2008	379,000	26/3/2009 - 26/3/2015	–	379,000	–	–	–	26.52	379,000	–
	1/4/2008	261,000	26/3/2009 - 26/3/2015	–	261,000	–	–	–	26.52	261,000	–
	2/4/2008	296,000	26/3/2009 - 26/3/2015	–	296,000	–	–	–	26.52	296,000	–
	3/4/2008	171,000	26/3/2009 - 26/3/2015	–	171,000	–	–	–	26.52	171,000	–
	4/4/2008	23,000	26/3/2009 - 26/3/2015	–	23,000	–	–	–	26.52	23,000	–
	5/4/2008	17,000	26/3/2009 - 26/3/2015	–	17,000	–	–	–	26.52	17,000	–
	7/4/2008	390,000	26/3/2009 - 26/3/2015	–	390,000	–	–	–	26.52	390,000	–
	8/4/2008	174,000	26/3/2009 - 26/3/2015	–	174,000	–	–	–	26.52	174,000	–
	9/4/2008	85,000	26/3/2009 - 26/3/2015	–	85,000	–	–	–	26.52	85,000	–
	10/4/2008	58,000	26/3/2009 - 26/3/2015	–	58,000	–	–	–	26.52	58,000	–
	11/4/2008	134,000	26/3/2009 - 26/3/2015	–	134,000	–	–	–	26.52	134,000	–
	12/4/2008	48,000	26/3/2009 - 26/3/2015	–	48,000	–	–	–	26.52	48,000	–
	14/4/2008	40,000	26/3/2009 - 26/3/2015	–	40,000	–	–	–	26.52	40,000	–
	15/4/2008	34,000	26/3/2009 - 26/3/2015	–	34,000	–	–	–	26.52	34,000	–
	16/4/2008	57,000	26/3/2009 - 26/3/2015	–	57,000	–	–	–	26.52	57,000	–
	17/4/2008	147,000	26/3/2009 - 26/3/2015	–	147,000	–	–	–	26.52	147,000	–
	18/4/2008	32,000	26/3/2009 - 26/3/2015	–	32,000	–	–	–	26.52	32,000	–
	19/4/2008	25,000	26/3/2009 - 26/3/2015	–	25,000	–	–	–	26.52	25,000	–
	20/4/2008	23,000	26/3/2009 - 26/3/2015	–	23,000	–	–	–	26.52	23,000	–
	21/4/2008	66,000	26/3/2009 - 26/3/2015	–	66,000	–	–	–	26.52	66,000	–
	23/4/2008	34,000	26/3/2009 - 26/3/2015	–	34,000	–	–	–	26.52	34,000	–

Notes:

1 The exercise price of the share options is determined upon the offer of grant of the options and which should not be less than the greatest of (a) the average closing price per share of the Company for the five business days immediately preceding the date of offer of such options; (b) the closing price per share of the Company on the date of offer of such options, which must be a business day; and (c) the nominal value per share of the Company.

2 The proportion of underlying shares in respect of which the above share options will vest is as follows:

Date	Proportion of underlying shares in respect of which an option is vested
Before the first anniversary of the date of offer of the option (the "Offer Anniversary")	none
From the first Offer Anniversary to the date immediately before the second Offer Anniversary	one-third
From the second Offer Anniversary to the date immediately before the third Offer Anniversary	two-thirds
From the third Offer Anniversary and thereafter	all

During the six months ended 30 June 2008, 3,054,000 options to subscribe for shares of the Company were granted to 142 employees under the 2007 Share Option Scheme. Pursuant to the terms of this Scheme, each grantee undertakes to pay HK$1.00, on demand, to the Company, in consideration for the grant of the options (the respective closing price per share immediately before the respective date of grant of the options are set out below). The share options granted are recognised on an accrued vesting basis in the accounts. The weighted average value per option granted, estimated at the date of grant using the Black-Scholes pricing model is as follows:

Date granted	Closing price per share immediately before the date of grant (HK$)	Estimated risk-free interest rate (%)	Expected life (Years)	Estimated Volatility	Expected dividend per share (HK$)	Weighted average value per option granted (HK$)
2/1/2008	28.70	2.82	3.5	0.22	0.45	5.49
3/1/2008	30.80	2.71	3.5	0.22	0.45	6.88
4/1/2008	31.80	2.77	3.5	0.22	0.45	7.65
7/1/2008	32.00	2.77	3.5	0.22	0.45	7.79
28/3/2008	25.90	1.69	3.5	0.22	0.45	3.80
31/3/2008	26.10	1.68	3.5	0.22	0.45	3.90
1/4/2008	26.70	1.66	3.5	0.23	0.45	4.39
2/4/2008	26.70	1.75	3.5	0.23	0.45	4.42
3/4/2008	27.35	1.83	3.5	0.23	0.45	4.84
4/4/2008	27.25	1.83	3.5	0.23	0.45	4.78
5/4/2008	27.25	1.83	3.5	0.23	0.45	4.78
7/4/2008	27.25	1.79	3.5	0.23	0.45	4.76
8/4/2008	27.10	1.84	3.5	0.23	0.45	4.69
9/4/2008	27.20	1.76	3.5	0.23	0.45	4.72
10/4/2008	26.90	1.65	3.5	0.23	0.45	4.49
11/4/2008	26.90	1.72	3.5	0.23	0.45	4.52
12/4/2008	27.10	1.72	3.5	0.23	0.45	4.63
14/4/2008	27.10	1.65	3.5	0.23	0.45	4.60
15/4/2008	26.65	1.74	3.5	0.23	0.45	4.37
16/4/2008	27.05	1.81	3.5	0.23	0.45	4.63
17/4/2008	26.65	1.88	3.5	0.23	0.45	4.42
18/4/2008	26.80	1.91	3.5	0.23	0.45	4.52
19/4/2008	26.85	1.91	3.5	0.23	0.45	4.54
20/4/2008	26.85	1.91	3.5	0.23	0.45	4.54
21/4/2008	26.85	1.91	3.5	0.23	0.45	4.54
23/4/2008	27.35	1.99	3.5	0.23	0.45	4.88

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options and requires input of highly subjective assumptions, including the expected life and stock price volatility. Since the Company's share options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimates, the Black-Scholes option pricing model does not necessarily provide a reliable measure of the fair value of the share options.

Save as disclosed above:

A none of the Members of the Board or the Executive Directorate of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO); and

B during the six months ended 30 June 2008, no Member of the Board or the Executive Directorate nor any of their spouses or children under 18 years of age held any rights to subscribe for equity or debt securities of the Company nor had there been any exercises of any such rights by any of them,

as recorded in the register kept by the Company under section 352 of the SFO or otherwise notified to the Company and the HKSE pursuant to the Model Code.

Substantial Shareholders' Interests

Set out below is the name of the party which was interested in 5% or more of the nominal value of the share capital of the Company and the number of shares in which it was interested as at 30 June 2008 as recorded in the register kept by the Company under section 336 of the SFO:

Name	No. of Ordinary Shares	Percentage of Ordinary Shares to total issued share capital
The Financial Secretary Incorporated (in trust on behalf of the Government)	4,330,527,786	76.72

The Company has been informed by the Government that, as at 30 June 2008, approximately 0.72% of the shares of the Company were held for the account of the Exchange Fund. The Exchange Fund is a fund established under the Exchange Fund Ordinance (Cap. 66 of the Laws of Hong Kong) under the control of the Financial Secretary.

Loan Agreements with Covenant Relating to Specific Performance of the Controlling Shareholder

As at 30 June 2008, the Group had facilities of HK$49,852 million in aggregate with maturities ranging from 2008 to 2020, which were subject to a condition that the Government, being the Company's controlling shareholder, owns more than half in nominal value of the voting share capital of the Company during the terms of these facilities. Otherwise, the outstanding borrowings may be subject to immediate repayment upon demand or the undrawn facilities may be cancelled as a result.

Purchase, Sale or Redemption of Own Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities during the six months ended 30 June 2008.

Closure of Register of Members

The Register of Members of the Company will be closed from 20 August 2008 to 22 August 2008 (both dates inclusive), during which period no transfer of shares can be registered. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on 19 August 2008. The 2008 interim dividend is expected to be paid on or about 17 October 2008 to shareholders whose names appear on the Register of Members of the Company on 22 August 2008.

Consolidated Profit and Loss Account

in HK$ million	Note	**Half year ended 30 June 2008 (Unaudited)**	Half year ended 30 June 2007 (Unaudited)
Fare revenue		**5,592**	3,247
Station commercial and rail related revenue		**1,645**	735
Rental, management and other revenue		**1,290**	870
Turnover		**8,527**	4,852
Staff costs and related expenses		**(1,536)**	(784)
Energy and utilities		**(473)**	(251)
Operational rent and rates		**(89)**	(45)
Stores and spares consumed		**(167)**	(53)
Repairs and maintenance		**(359)**	(233)
Railway support services		**(57)**	(42)
Expenses relating to station commercial and rail related businesses		**(388)**	(165)
Expenses relating to property ownership, management and other businesses		**(340)**	(223)
Project study and business development expenses		**(87)**	(112)
General and administration expenses		**(139)**	(67)
Other expenses		**(96)**	(80)
Operating expenses before depreciation and amortisation		**(3,731)**	(2,055)
Operating profit from railway and related businesses before depreciation and amortisation		**4,796**	2,797
Profit on property developments	3	**348**	1,664
Operating profit before depreciation and amortisation		**5,144**	4,461
Depreciation and amortisation		**(1,517)**	(1,348)
Merger related expenses		**(24)**	–
Operating profit before interest and finance charges		**3,603**	3,113
Interest and finance charges		**(1,078)**	(654)
Change in fair value of investment properties		**2,080**	2,450
Share of profits of non-controlled subsidiaries and associates	4	**91**	42
Profit before taxation		**4,696**	4,951
Income tax	5	**(8)**	(879)
Profit for the period		**4,688**	4,072
Attributable to:			
– Equity shareholders of the Company		**4,689**	4,071
– Minority interests		**(1)**	1
Profit for the period		**4,688**	4,072
Dividend proposed to equity shareholders of the Company attributable to the period:			
– Interim dividend declared after the balance sheet date	6	**790**	782
Earnings per share:	7		
– Basic		**HK$0.83**	HK$0.73
– Diluted		**HK$0.83**	HK$0.73

The notes on pages 32 to 47 form part of this interim financial report.

Consolidated Balance Sheet

in HK$ million	Note	At 30 June 2008 (Unaudited)	At 31 December 2007 (Audited)
Assets			
Fixed assets			
– Investment properties	9	**39,856**	37,723
– Other property, plant and equipment	10	**78,658**	79,444
– Service concession assets	11	**15,274**	15,250
		133,788	132,417
Property management rights		**37**	40
Railway construction in progress		**538**	424
Property development in progress	12	**10,973**	9,066
Deferred expenditure	13	**1,424**	825
Prepaid land lease payments		**574**	581
Interests in non–controlled subsidiaries		**323**	268
Interests in associates	14	**733**	205
Deferred tax assets	23	**4**	4
Investments in securities		**389**	333
Staff housing loans		**11**	15
Properties held for sale	15	**511**	756
Derivative financial assets	16	**267**	273
Stores and spares		**683**	642
Debtors, deposits and payments in advance	17	**2,471**	5,167
Loan to a property developer	18	**3,624**	3,532
Amounts due from the Government and other related parties	19	**309**	544
Cash and cash equivalents		**660**	576
		157,319	155,668
Liabilities			
Bank overdrafts		**27**	2
Short–term loans	20	**1,791**	507
Creditors, accrued charges and provisions	21	**7,209**	5,412
Current taxation		**6**	3
Contract retentions		**244**	225
Amounts due to the Government and other related parties	19	**1,255**	975
Loans and obligations under finance leases	20	**28,160**	33,541
Obligations under service concession	22	**10,671**	10,685
Derivative financial liabilities	16	**79**	192
Deferred income		**246**	515
Deferred tax liabilities	23	**12,578**	12,574
		62,266	64,631
Net assets		**95,053**	91,037
Capital and reserves			
Share capital, share premium and capital reserve	24	**40,719**	39,828
Other reserves	25	**54,310**	51,186
Total equity attributable to equity shareholders of the Company		**95,029**	91,014
Minority interests		**24**	23
Total equity		**95,053**	91,037

The notes on pages 32 to 47 form part of this interim financial report.

Consolidated Statement of Changes in Equity

in HK$ million	Note	**Half year ended 30 June 2008 (Unaudited)**		Half year ended 30 June 2007 (Unaudited)	
Total equity as at 1 January					
– Attributable to equity shareholders of the Company		**91,014**		76,767	
– Minority interests		**23**		19	
Total equity as at 1 January			**91,037**		76,786
Cash flow hedges:	25				
Effective portion of changes in fair value, net of deferred tax		**28**		81	
Transfer from equity					
– to profit and loss account		**19**		–	
– to initial carrying amount of non-financial hedged items		**(12)**		–	
– to deferred tax		**(1)**		–	
		34		81	
Surplus on revaluation of self-occupied land and buildings, net of deferred tax	25	**86**		120	
Release of revaluation reserve on disposal, net of deferred tax	25	**7**		–	
Effect of decrease in the Hong Kong Profits Tax rate from 17.5% to 16.5%	25	**14**		–	
Exchange difference on translation of accounts of overseas subsidiaries	25	**27**		10	
Net income recognised directly in equity		**168**		211	
Net profit for the period		**4,688**		4,072	
Total recognised income and expense for the period			**4,856**		4,283
Dividend approved during the period					
– 2007/2006 final dividend	6		**(1,740)**		(1,554)
Shares issued during the period	24				
– Employee Share Option Scheme		**21**		6	
– Scrip Dividend Scheme		**868**		776	
		889		782	
Employee share-based payments	25	**9**		–	
Movements in equity arising from capital transactions			**898**		782
Exchange difference on translation of minority interests			**2**		–
Total equity as at 30 June			**95,053**		80,297
Total recognised income and expense for the period attributable to:					
– Equity shareholders of the Company			**4,857**		4,282
– Minority interests			**(1)**		1
			4,856		4,283

The notes on pages 32 to 47 form part of this interim financial report.

Consolidated Cash Flow Statement

in HK$ million	**Half year ended 30 June 2008 (Unaudited)**		Half year ended 30 June 2007 (Unaudited)	
Cash flows from operating activities				
Operating profit from railway and related businesses before depreciation and amortisation	**4,796**		2,797	
Adjustments for:				
Decrease in provision for obsolete stock	**(7)**		(2)	
Loss on disposal of fixed assets	**8**		14	
Amortisation of deferred income from lease transaction	**–**		(2)	
Amortisation of prepaid land lease payments	**8**		7	
(Increase)/decrease in fair value of derivative instruments	**(22)**		1	
Unrealised loss on revaluation of investment in securities	**2**		1	
Employee share-based payment expenses	**12**		2	
Exchange gain	**(5)**		–	
Operating profit from railway and related businesses before working capital changes	**4,792**		2,818	
Decrease in debtors, deposits and payments in advance	**140**		70	
Increase in stores and spares	**(34)**		(3)	
(Decrease)/increase in creditors, accrued charges and provisions	**(226)**		97	
Cash generated from operations	**4,672**		2,982	
Current tax paid	**(3)**		(1)	
Net cash generated from operating activities		**4,669**		2,981
Cash flows from investing activities				
Capital expenditure				
– Purchase of operational railway assets	**(690)**		(537)	
– Tseung Kwan O South Project	**(107)**		(104)	
– Disneyland Resort Line Project	**(6)**		(9)	
– Tung Chung Cable Car Project	**(43)**		(10)	
– West Island Line Project	**(137)**		(20)	
– Tseung Kwan O property development projects	**(81)**		(67)	
– East Rail/Light Rail/Kowloon Southern Link property development projects	**(117)**		–	
– Property fitting out works and other development projects	**(251)**		(209)	
– Other capital projects	**(498)**		(106)	
Payments in respect of the Rail Merger				
– Staff voluntary separation payments	**(145)**		–	
– Other payments directly attributable to the Rail Merger	**(59)**		(50)	
Receipts in respect of property development	**3,222**		3,136	
Receipts of Government grant for West Island Line Project	**400**		–	
Purchase of investment in securities	**(113)**		(151)	
Proceeds from sale of investment in securities	**56**		82	
Loan repayments from non-controlled subsidiaries and associates	**109**		–	
Investment in an associate	**(515)**		(103)	
Dividend received from a non-controlled subsidiary	**23**		–	
Principal repayments under Staff Housing Loan Scheme	**4**		7	
Net cash generated from investing activities		**1,052**		1,859
Cash flows from financing activities				
Proceeds from shares issued under share option schemes	**21**		6	
Drawdown of loans	**3,891**		924	
Proceeds from issuance of capital market instruments	**1,250**		–	
Repayment of loans	**(8,324)**		(4,031)	
Repayment of capital market instruments	**(1,000)**		–	
Reduction in capital element of finance lease	**–**		(69)	
Interest paid	**(630)**		(791)	
Interest received	**8**		15	
Interest element of finance lease rental payments	**–**		(6)	
Finance charges paid	**(8)**		(4)	
Dividend paid	**(870)**		(777)	
Net cash used in financing activities		**(5,662)**		(4,733)
Net increase in cash and cash equivalents		**59**		107
Cash and cash equivalents at 1 January		**574**		305
Cash and cash equivalents at 30 June		**633**		412
Analysis of the balances of cash and cash equivalents				
Cash and cash equivalents		**660**		413
Bank overdrafts		**(27)**		(1)
		633		412

The notes on pages 32 to 47 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

1 Basis of Preparation

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). KPMG's review report to the Board of Directors is set out on page 48. In addition, this interim financial report has been reviewed by the Company's Audit Committee.

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting" issued by the HKICPA.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains the condensed consolidated accounts and selected explanatory notes, which include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interest in non-controlled subsidiaries and associates since the issuance of the 2007 annual accounts. The condensed consolidated interim accounts and notes thereon do not include all of the information required for full set of accounts prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The financial information relating to the financial year ended 31 December 2007 included in the interim financial report does not constitute the Company's statutory accounts for that financial year but is derived from those accounts. Statutory accounts for the year ended 31 December 2007, on which the auditors have expressed an unqualified opinion on those accounts in their report dated 11 March 2008, are available from the Company's registered office.

The same accounting policies adopted in the 2007 annual accounts have been applied to the interim accounts.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for the Group's financial period beginning on or after 1 January 2008:

HK(IFRIC) Interpretation 11, HKFRS 2 – Group and treasury share transactions
HK(IFRIC) Interpretation 14, HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction

The adoption of these new HKFRSs had no material effect on the results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognized.

In 2007, the HKICPA issued HK(IFRIC) Interpretation 12 "Service concession arrangements" to provide guidance on the accounting by operators in service concession arrangements to be effective for reporting periods commencing on or after 1 January 2008. As the merger of the Company's operations with Kowloon-Canton Railway Corporation ("KCRC") on 2 December 2007 is considered to include a service concession arrangement under HK(IFRIC) Interpretation 12, the Company has early adopted the Interpretation in the 2007 accounts.

2 Rail Merger with Kowloon-Canton Railway Corporation

On 2 December 2007 (the "Appointed Day"), the Company's operations merged with those of KCRC ("Rail Merger"). The structure and key terms of the Rail Merger were set out in a series of transaction agreements entered into between, inter alia, the Government of the Hong Kong Special Administrative Region, KCRC and the Company including the Service Concession Agreement, Property Package Agreements and Merger Framework Agreement. Key elements of the Rail Merger include the following:

- The expansion of the Company's existing franchise under the Mass Transit Railway Ordinance ("MTR Ordinance") to cover the construction, operation and regulation of railways in addition to the MTRC railway for an initial period of 50 years from the Appointed Day ("Franchise Period"), which may be extended pursuant to the provisions of the MTR Ordinance;

- The Service Concession Agreement ("SCA") pursuant to which KCRC granted the Company the right to access, use and operate the KCRC system for an initial term of 50 years (the "Concession Period"), which will be extended if the Franchise Period (as it relates to the KCRC railway) is extended. The SCA also sets out the basis on which the KCRC system will be returned at the end of the Concession Period. In accordance with the terms of the SCA, the Company paid an upfront lump sum to KCRC on the Appointed Day and is obliged to pay an annual fixed payment to KCRC for the duration of the Concession Period. Additionally, commencing after three years from the Appointed Day, the Company is obliged to pay an annual variable fee to KCRC based on the revenue generated from the KCRC system above certain thresholds;

- Under the SCA, the Company is responsible for the expenditure incurred in relation to the maintenance, repair, replacement and upgrade of the KCRC system (with any new assets acquired being classified as "additional concession property"). To the extent that such expenditure exceeds an agreed threshold ("Capex Threshold"), the Company will be reimbursed for any above threshold expenditure at the end of the Concession Period with such reimbursement to be on the basis of depreciated book value;

2 Rail Merger with Kowloon-Canton Railway Corporation *(continued)*

- In the event that the Concession Period is extended, the fixed annual payment and the variable annual payment will continue to be payable by the Company. On such extension, the Capex Threshold may also be adjusted;
- With effect from the Appointed Day, staff of the Company and KCRC have been employed by the Company on their prevailing terms and conditions of employment. In connection with the Rail Merger, a Staff Voluntary Separation Scheme has been offered to eligible staff;
- Property Package Agreements whereby property assets comprising certain investment and own-used properties, property management rights and property development rights were acquired by the Company;
- Merger Framework Agreement setting out the framework for the Rail Merger including the implementation of the Fare Adjustment Mechanism whereby the extent to which fares may be adjusted is linked to certain public indices, the provision of a fare reduction starting from the Appointed Day and the guarantee of job security for front line staff employed at the time of the Rail Merger;
- Pursuant to the above and the vesting and novation of certain contracts, the Company assumed certain assets and liabilities of KCRC on the Appointed Day. The assumption of the liabilities of deposits refundable to third parties was subject to compensation by KCRC on the Appointed Day; and
- Other post-Appointed Day arrangements between the Company and KCRC such as the arrangements documented by the Kowloon Southern Link ("KSL") Project Management Agreement, the West Rail Agency Agreement and the Outsourcing Agreement.

The principle terms of the Rail Merger and their financial impact were described in the Company's audited accounts for the year ended 31 December 2007. Income and expenditure and assets and liabilities in relation to the operation of the service concession are accounted for in the respective line items of the Group's profit and loss account and balance sheet.

3 Profit on Property Developments

Profit on property developments comprises:

in HK$ million	**Half year ended 30 June 2008**	Half year ended 30 June 2007
Transfer from deferred income on		
– up-front payments	**95**	510
– sharing in kind	**37**	42
Share of surplus from development	**224**	1,100
Income recognised from sharing in kind	**–**	21
Other overhead costs	**(8)**	(9)
	348	1,664

4 Share of Profits of Non-controlled Subsidiaries and Associates

Share of profits of non-controlled subsidiaries and associates comprises:

in HK$ million	**Half year ended 30 June 2008**	Half year ended 30 June 2007
Share of profit before taxation of non-controlled subsidiaries	**86**	50
Share of profit before taxation of associates	**19**	-
	105	50
Share of income tax of non-controlled subsidiaries	**(8)**	(8)
Share of income tax of associates	**(6)**	-
	91	42

5 Income Tax

Income tax in the consolidated profit and loss account represents:

in HK$ million	**Half year ended 30 June 2008**	Half year ended 30 June 2007
Current tax for the period	**6**	–
Deferred tax		
– Origination and reversal of temporary differences on:		
– change in fair value of investment properties	**343**	429
– utilisation of tax losses	**406**	423
– others	**(43)**	27
	706	879
– Effect of decrease in the Hong Kong Profits Tax rate from 17.5% to 16.5%	**(704)**	–
	2	879
	8	879

No provision for current Hong Kong Profits Tax has been made in the consolidated profit and loss account in respect of the Company and most of its subsidiaries, as the Company and these subsidiaries either have substantial accumulated tax losses brought forward which are available for set off against current period's assessable profits or have sustained tax losses for the half year ended 30 June 2008. Current Hong Kong Profits Tax totalling HK$5 million (2007: nil) was provided for certain of the Company's subsidiaries acquired in the Rail Merger, calculated at the prevailing Hong Kong Profits Tax rate at 16.5%. Current taxation for overseas subsidiaries of HK$1 million (2007: nil) is charged at the appropriate current rates of taxation ruling in the relevant countries.

Provision for deferred tax on temporary differences arising in Hong Kong is calculated at the Hong Kong Profits Tax rate at 16.5% (2007: 17.5%).

6 Dividends

During the period, dividends paid and proposed to equity shareholders of the Company comprised:

in HK$ million	**Half year ended 30 June 2008**	Half year ended 30 June 2007
Dividends payable in respect of 2008		
– Interim dividend declared after the balance sheet date of 14 cents (2007: 14 cents) per share	**790**	782
Dividend in respect of 2007		
– 2007 final dividend of 31 cents (2006: 28 cents) per share approved and paid in 2008	**1,740**	1,554

7 Earnings Per Share

A Basic Earnings Per Share

The calculation of basic earnings per share is based on the profit for the half year ended 30 June 2008 attributable to equity shareholders of HK$4,689 million (2007: HK$4,071 million) and the weighted average number of ordinary shares of 5,613,941,337 in issue during the period (2007: 5,550,144,410), calculated as follows:

	Half year ended 30 June 2008	Half year ended 30 June 2007
Issued ordinary shares at 1 January	**5,611,057,035**	5,548,613,951
Effect of scrip dividends issued	**2,290,854**	1,082,419
Effect of share options exercised	**593,448**	448,040
Weighted average number of ordinary shares at 30 June	**5,613,941,337**	5,550,144,410

B Diluted Earnings Per Share

The calculation of diluted earnings per share is based on the profit for the half year ended 30 June 2008 attributable to equity shareholders of HK$4,689 million (2007: HK$4,071 million) and the weighted average number of ordinary shares of 5,619,005,310 in issue during the period (2007: 5,555,165,343) after adjusting for the number of dilutive potential ordinary shares under the employee share option schemes, calculated as follows:

	Half year ended 30 June 2008	Half year ended 30 June 2007
Weighted average number of ordinary shares at 30 June	**5,613,941,337**	5,550,144,410
Number of ordinary shares deemed to be issued for no consideration	**5,063,973**	5,020,933
Weighted average number of ordinary shares (diluted) at 30 June	**5,619,005,310**	5,555,165,343

C Both basic and diluted earnings per share would have been HK$0.49 (2007: HK$0.37) if the calculation is based on profit from underlying businesses attributable to equity shareholders, i.e. excluding increase in fair value of investment properties net of related deferred tax, adjusted as follows:

in HK$ million	**Half year ended 30 June 2008**	Half year ended 30 June 2007
Profit attributable to equity shareholders	**4,689**	4,071
Increase in fair value of investment properties	**(2,080)**	(2,450)
Deferred tax on change in fair value of investment properties		
– Effect of the change during the period (note 5)	**343**	429
– Effect of decrease in the Hong Kong Profits Tax rate from 17.5% to 16.5%	**(221)**	-
Profit from underlying businesses attributable to equity shareholders	**2,731**	2,050

8 Segmental Information

Segmental information is presented in accordance with the Group's business segments, which comprise the following:

Railway operations: The operation of an urban mass transit railway system within Hong Kong and an Airport Express serving both the Hong Kong International Airport and the AsiaWorld-Expo at Chek Lap Kok and, after the Rail Merger, the KCR System consisting of the East Rail Line (excluding Cross-boundary Service), West Rail Line, Ma On Shan Line, Cross-boundary Service, Light Rail, Bus and Intercity passenger services.

Station commercial and rail related businesses: Commercial activities including letting of advertising and retail space, bandwidth services on the railway telecommunication system, railway consultancy services, freight and rail related subsidiaries' businesses.

Property ownership, management and other businesses: Property rental, property management and operations relating to Ngong Ping 360.

Property developments: Property development at locations relating to the railway system.

8 Segmental Information *(continued)*

The Group's results of major business activities for the half year ended 30 June 2008, with comparative figures for the half year ended 30 June 2007, are summarised below:

in HK$ million	Railway operations	Station commercial and rail related businesses	Property ownership, management and other businesses	**Total railway operations and related activities**	Property developments	**Total**
Half year ended 30 June 2008						
Revenue	**5,592**	**1,645**	**1,290**	**8,527**	**–**	**8,527**
Operating expenses before depreciation and amortisation	**(2,662)**	**(388)**	**(340)**	**(3,390)**	**–**	**(3,390)**
	2,930	**1,257**	**950**	**5,137**	**–**	**5,137**
Profit on property developments	**–**	**–**	**–**	**–**	**348**	**348**
Operating profit before depreciation and amortisation	**2,930**	**1,257**	**950**	**5,137**	**348**	**5,485**
Depreciation and amortisation	**(1,413)**	**(38)**	**(37)**	**(1,488)**	**–**	**(1,488)**
	1,517	**1,219**	**913**	**3,649**	**348**	**3,997**
Unallocated corporate expenses						**(370)**
Merger related expenses						**(24)**
Operating profit before interest and finance charges						**3,603**
Interest and finance charges						**(1,078)**
Change in fair value of investment properties			**2,080**			**2,080**
Share of profits of non-controlled subsidiaries and associates						**91**
Income tax						**(8)**
Profit for the period ended 30 June 2008						**4,688**
Half year ended 30 June 2007						
Revenue	3,247	735	870	4,852	–	4,852
Operating expenses before depreciation and amortisation	(1,413)	(165)	(223)	(1,801)	–	(1,801)
	1,834	570	647	3,051	–	3,051
Profit on property developments	–	–	–	–	1,664	1,664
Operating profit before depreciation and amortisation	1,834	570	647	3,051	1,664	4,715
Depreciation and amortisation	(1,258)	(32)	(32)	(1,322)	–	(1,322)
	576	538	615	1,729	1,664	3,393
Unallocated corporate expenses						(280)
Operating profit before interest and finance charges						3,113
Interest and finance charges						(654)
Change in fair value of investment properties			2,450			2,450
Share of profits of non–controlled subsidiaries and associates						42
Income tax						(879)
Profit for the period ended 30 June 2007						4,072

As substantially all the principal operating activities of the Group were carried out in Hong Kong throughout the reporting periods, no geographical analysis is provided.

9 Investment Properties

Investment properties carried at fair value were revalued at 30 June 2008 on an open market basis by an independent firm of surveyors, Jones Lang LaSalle Limited (30 June 2007: DTZ Debenham Tie Leung), who have among their staff Members of the Hong Kong Institute of Surveyors. As a result, a gain of HK$2,080 million (2007: HK$2,450 million), and deferred tax thereon of HK$343 million (2007: HK$429 million) in respect of the investment properties, have been included in the consolidated profit and loss account.

10 Other Property, Plant and Equipment

A Acquisitions and Disposals

During the half year ended 30 June 2008, the Group acquired or commissioned assets at a total cost of HK$576 million (2007: HK$684 million). Items of self-occupied office land and buildings, civil works and plant and equipment with a net book value of HK$54 million (2007: HK$14 million) were disposed of during the same period, resulting in a net loss on disposal of HK$8 million (2007: HK$14 million).

B Valuation

Self-occupied office land and buildings carried at fair value were revalued at 30 June 2008 on an open market value basis by an independent firm of surveyors, Jones Lang LaSalle Limited (30 June 2007: DTZ Debenham Tie Leung), who have among their staff Members of the Hong Kong Institute of Surveyors. As a result, revaluation surpluses of HK$86 million (2007: HK$120 million), net of deferred tax, have been transferred to the fixed asset revaluation reserve (note 25).

11 Service Concession Assets

Service concession assets comprise the Company's right to access, use and operate the KCRC system ("Initial Concession Property") and the expenditures incurred in relation to the maintenance, repair, replacement and upgrade of the KCRC system. During the half year ended 30 June 2008, the Company had additions of HK$178 million (2007: nil) and charged HK$154 million (2007: nil) to the profit and loss account as amortisation.

12 Property Development in Progress

Property development in progress comprises foundation, site enabling works and land costs incurred by the Company for property development projects, net of payments received from developers. Movements of property development in progress during the half year ended 30 June 2008 and the year ended 31 December 2007 were as follows:

in HK$ million	Balance at 1 January	Expenditure	Offset against payments received from developers	Balance at 30 June/ 31 December
30 June 2008 (Unaudited)				
Airport Railway Property Projects	**–**	**15**	**(15)**	**–**
Tseung Kwan O Extension Property Projects	**3,307**	**100**	**(6)**	**3,401**
East Rail Line/Light Rail/Kowloon Southern Link Property Projects	**5,759**	**1,855**	**(42)**	**7,572**
	9,066	**1,970**	**(63)**	**10,973**
31 December 2007 (Audited)				
Airport Railway Property Projects	–	139	(139)	–
Tseung Kwan O Extension Property Projects	3,297	288	(278)	3,307
East Rail Line/Light Rail/Kowloon Southern Link Property Projects	–	5,812	(53)	5,759
	3,297	6,239	(470)	9,066

13 Deferred Expenditure

Deferred expenditure comprises capital expenditures on the preliminary studies and designs of new railway extensions including the Shenzhen Metro Line 4, West Island Line, Kwun Tong Line Extension, South Island Line East, Shatin to Central Link and Express Rail Link.

During the half year ended 30 June 2008, the Company received the first part of the Government's capital grant for the West Island Line Project of HK$400 million, which has been used to offset the detailed design cost incurred up to 30 June 2008.

14 Interests in Associates

During the half year ended 30 June 2008, the Group has made a further equity contribution of HK$515 million to Beijing MTR Corporation Limited, a public-private partnership company in which the Group holds a 49% interest, making the cumulative equity contribution HK$718 million as at 30 June 2008. More details are set out in note 26C.

15 Properties Held for Sale

in HK$ million	At 30 June 2008 (Unaudited)	At 31 December 2007 (Audited)
Properties held for sale		
– at cost	**404**	649
– at net realisable value	**107**	107
	511	756

Properties held for sale at net realisable value are stated net of provision of HK$12 million (2007: HK$12 million) made in order to state these properties at the lower of their cost and estimated net realisable value.

16 Derivative Financial Assets and Liabilities

Derivative financial assets and liabilities comprise:

	At 30 June 2008 (Unaudited)		At 31 December 2007 (Audited)	
in HK$ million	Notional amount	Fair value	Notional amount	Fair value
Derivative Financial Assets				
Foreign exchange forwards				
– fair value hedges	**7**	**–**	7	–
– cash flow hedges	**1,580**	**16**	777	15
– not qualified for hedge accounting	**206**	**16**	265	3
Cross currency swaps				
– fair value hedges	**5,224**	**82**	2,012	70
Interest rate swaps				
– fair value hedges	**4,448**	**139**	4,698	184
– cash flow hedges	**300**	**13**	300	1
Others	**300**	**1**	–	–
	12,065	**267**	8,059	273
Derivative Financial Liabilities				
Foreign exchange forwards				
– cash flow hedges	**18**	**–**	593	1
– not qualified for hedge accounting	**1**	**–**	–	–
Cross currency swaps				
– fair value hedges	**11,258**	**34**	14,480	142
Interest rate swaps				
– fair value hedges	**1,000**	**18**	–	–
– cash flow hedges	**2,542**	**24**	2,242	49
– not qualified for hedge accounting	**100**	**1**	100	–
Others	**300**	**2**	–	–
	15,219	**79**	17,415	192
Total	**27,284**		25,474	

17 Debtors, Deposits and Payments in Advance

The Group's credit policy in respect of receivables arising from its principal activities are as follows:

(i) Rentals, advertising and telecommunication service fees are billed monthly with due dates ranging from 7 to 50 days. Tenants of the Group's investment properties and station kiosks are required to pay three months' rental deposit upon the signing of lease agreements.

(ii) Amounts receivable under interest rate and currency swap agreements with financial institutions are due in accordance with the respective terms of the agreements.

(iii) Consultancy service incomes are billed monthly and are due within 30 days.

(iv) Debtors in relation to contracts and capital works entrusted to the Group, subject to any agreed retentions, are due within 21 days upon the certification of work in progress.

(v) Amounts receivable from property purchasers are due in accordance with terms of respective sale and purchase agreements.

The ageing of debtors is analysed as follows:

in HK$ million	**At 30 June 2008 (Unaudited)**	At 31 December 2007 (Audited)
Amounts not yet due	**1,507**	4,201
Overdue by 30 days	**158**	172
Overdue by 60 days	**9**	19
Overdue by 90 days	**8**	14
Overdue by more than 90 days	**71**	55
Total debtors	**1,753**	4,461
Deposits and payments in advance	**532**	552
Prepaid pension costs	**186**	154
	2,471	5,167

18 Loan to a Property Developer

Nominal and carrying amounts of the loan to a property developer are stated below:

	At 30 June 2008 (Unaudited)		At 31 December 2007 (Audited)	
in HK$ million	Nominal amount	Carrying amount	Nominal amount	Carrying amount
Interest-free loan to a property developer	**4,000**	**3,624**	4,000	3,532

The loan was provided to the developer of Package 2, Tseung Kwan O Area 86 property development project under the terms of the development agreement. The loan is interest-free and guaranteed by the developer's ultimate holding company and is repayable on completion of the respective phases of the project.

19 Material Related Party Transactions

The Financial Secretary Incorporated, which holds approximately 76.7% of the Company's issued share capital on trust for the Government of the Hong Kong Special Administrative Region ("Government"), is the majority shareholder of the Company. Transactions between the Group and Government departments, agencies or Government controlled entities, other than those transactions arising in the normal dealings between the Government and the Group, are considered to be related party transactions pursuant to HKAS 24 "Related party disclosures" and are identified separately in this interim financial report.

During the half year ended 30 June 2008, amounts due from/to the Government and other related parties in respect of material related party transactions with the Group are stated below:

in HK$ million	**At 30 June 2008 (Unaudited)**	At 31 December 2007 (Audited)
Amounts due from:		
– the Government	**49**	34
– Housing Authority	**22**	22
– Airport Authority	**1**	–
– KCRC	**151**	261
– non-controlled subsidiaries	**9**	96
– associates	**77**	131
	309	544
Amounts due to:		
– the Government	**10**	–
– KCRC	**1,245**	975
	1,255	975

The amount due from the Government is related to outstanding receivables and retention, as well as provision for contract claims recoverable from the Government, in connection with infrastructure works entrusted to the Company and West Rail property development. The amount due to the Government is related to civil works on the extended overrun tunnel at Hong Kong Station entrusted to the Government.

The amounts due from the Housing Authority and Airport Authority are related to infrastructure works entrusted to the Company in respect of the Tseung Kwan O Extension Project and SkyPlaza Project respectively.

The amount due from KCRC is related to KCRC's cost sharing of the Rail Merger integration works, payments to the Company in respect of the Outsourcing Agreement and KSL Project Management Agreement as well as reimbursable expenditures of KCRC settled by the Company on KCRC's behalf. The amount due to KCRC is related to mandatory payments and related interest in respect of the East Rail Line/Light Rail/Kowloon Southern Link property development sites as well as the accrued portion of the first fixed annual payment for the service concession assets.

During the period, the following dividends were paid to the Government:

in HK$ million	**Half year ended 30 June 2008**	Half year ended 30 June 2007
Cash dividend paid	**555**	482
Shares allotted in respect of scrip dividends	**779**	708
	1,334	1,190

19 Material Related Party Transactions *(continued)*

The detail of major related party transactions entered into by the Group with the Government in prior years which are still relevant for the current year and with KCRC in respect of the Rail Merger were described in the Company's audited accounts for the year ended 31 December 2007.

During the half year ended 30 June 2008, the Group had the following transactions with its non-controlled subsidiary, Octopus Holdings Limited ("OHL"), and associate, London Overground Rail Operations Ltd ("LOROL"):

in HK$ million	**Half year ended 30 June 2008**	Half year ended 30 June 2007
OHL		
– Payment to OHL in respect of central clearing services	**48**	29
– Fees received from OHL in respect of load agency services, card issuance and refund services and management services	**12**	8
– Full repayment received from OHL on shareholder subordinated loan	**86**	–
– Dividend distribution by OHL for profits during the years from 2005 to 2007	**23**	–
LOROL		
– Full repayment received from LOROL on senior debt	**23**	–
– Receipt from LOROL for recovery of bidding costs on the London Rail Concession	**32**	–

20 Loans and Other Obligations

A Bonds and Notes Issued and Redeemed

Bonds and notes issued by the Group during the half years ended 30 June 2008 and 2007 comprise:

	Half year ended 30 June 2008		Half year ended 30 June 2007	
in HK$ million	**Principal amount**	**Net consideration received**	Principal amount	Net consideration received
Debt issuance programme notes	**1,250**	**1,250**	–	–

The above notes were issued by a subsidiary, MTR Corporation (C.I.) Limited. The notes issued are unconditionally and irrevocably guaranteed by the Company, and are direct, unsecured, unconditional and unsubordinated to other unsecured and unsubordinated obligations of MTR Corporation (C.I.) Limited. The obligations of the Company under the guarantee are direct, unsecured, unconditional and unsubordinated to other unsecured and unsubordinated obligations of the Company. The net proceeds received from the issues were on lent to the Company for general working capital, refinancing or other corporate purposes.

During the half year ended 30 June 2008, the Group redeemed HK$1,000 million (2007: nil) of its unlisted debt securities and none (2007: nil) of its listed debt securities.

B Short-term Loans

During the half year ended 30 June 2008, the Group drew down a short-term Renminbi loan, amounting to RMB700 million (HK$796 million), to finance the Shenzhen Metro Line 4 Project.

20 Loans and Other Obligations *(continued)*

C Lease Out/Lease Back Transaction

In the Group's lease out/lease back transaction entered into in March 2003, certain debt securities ("Defeasance Securities") are used to defease the future obligations under the lease. As the Group is not able to control these Defeasance Securities and its obligations to pay the lease payments are fully funded by the proceeds of the Defeasance Securities, these lease obligations and Defeasance Securities are not recognised as obligations and assets of the Group. A small portion of these Defeasance Securities are subject to replacement on credit rating downgrades, and as a result of the downgrade of some of these securities, HK$93.5 million has been charged to the profit and loss account for the half year ended 30 June 2008 in respect of the estimated net cost to the Group of its obligation to replace such securities. There are other Defeasance Securities, currently rated double A and single A by S&P's and Moody's respectively, issued by the same issuer as the above-noted Defeasance Securities, with accreted value of US$54.0 million as of 30 June 2008, which are not subject to replacement obligation on ratings downgrade.

21 Creditors, Accrued Charges and Provisions

Creditors, accrued charges and provisions are mainly related to capital projects which are settled upon certification of work in progress, swap interest payable and forward sale deposits received in respect of properties for which occupation permits have not been issued. The Group has no significant balances of trade creditors resulting from its provision of transportation services.

Under the development agreement in respect of the Che Kung Temple property development, the Company is obliged to pay 50% of the land premium, amounting to HK$1.8 billion. This payable has been settled in July 2008.

The analysis of creditors as at 30 June 2008 by due dates is as follows:

in HK$ million	**At 30 June 2008 (Unaudited)**	At 31 December 2007 (Audited)
Due within 30 days or on demand	**3,026**	1,354
Due after 30 days but within 60 days	**893**	652
Due after 60 days but within 90 days	**138**	218
Due after 90 days	**1,542**	1,563
	5,599	3,787
Rental and other refundable deposits	**1,395**	1,462
Accrued employee benefits	**215**	163
Total	**7,209**	5,412

22 Obligations under Service Concession

Obligations under service concession represent the outstanding balance of the discounted total fixed annual payments for the service concession acquired in the Rail Merger.

23 Deferred Tax Assets and Liabilities

A Movements of deferred tax assets and liabilities during the half year ended 30 June 2008 and the year ended 31 December 2007 were as follows:

	Deferred tax arising from					
in HK$ million	Depreciation allowances in excess of related depreciation	Revaluation of properties	Provision and other temporary differences	Cash flow hedges	Tax losses	Total
30 June 2008 (Unaudited)						
At 1 January 2008	**8,809**	**4,126**	**215**	**(5)**	**(575)**	**12,570**
Effect of decrease in the Hong Kong Profits Tax rate from 17.5% to 16.5%	**(503)**	**(235)**	**(12)**	**–**	**32**	**(718)**
Charged/(credited) to profit and loss account	**(47)**	**343**	**4**	**–**	**406**	**706**
Charged to reserves (note 25)	**–**	**9**	**–**	**7**	**–**	**16**
At 30 June 2008	**8,259**	**4,243**	**207**	**2**	**(137)**	**12,574**
31 December 2007 (Audited)						
At 1 January 2007	8,749	2,681	205	(2)	(2,181)	9,452
Addition through subsidiary acquisition	–	–	–	–	(2)	(2)
Charged to profit and loss account	60	1,402	10	–	1,608	3,080
Charged/(credited) to reserves (note 25)	–	43	–	(3)	–	40
At 31 December 2007	8,809	4,126	215	(5)	(575)	12,570

B Deferred tax assets and liabilities recognised amount to:

in HK$ million	**At 30 June 2008 (Unaudited)**	At 31 December 2007 (Audited)
Net deferred tax assets recognised in the balance sheet	**(4)**	(4)
Net deferred tax liabilities recognised in the balance sheet	**12,578**	12,574
	12,574	12,570

24 Share Capital, Share Premium and Capital Reserve

in HK$ million	**At 30 June 2008 (Unaudited)**	At 31 December 2007 (Audited)
Authorised:		
6,500,000,000 shares of HK$1.00 each	**6,500**	6,500
Issued and fully paid:		
5,644,905,489 shares (2007: 5,611,057,035 shares) of HK$1.00 each	**5,645**	5,611
Share premium	**7,886**	7,029
Capital reserve	**27,188**	27,188
	40,719	39,828

24 Share Capital, Share Premium and Capital Reserve *(continued)*

A Pursuant to the Articles of Association of the Company, the capital reserve can only be applied in paying up in full unissued shares to be allotted and distributed as fully paid bonus shares to the shareholders of the Company.

Share premium represents the amount by which the issue price of shares exceeds the par value of those shares. The application of the share premium account is governed by section 48B of the Hong Kong Companies Ordinance.

B New shares issued and fully paid up during the period comprise:

			Proceeds credited to		
	Number of shares	Option/ scrip price	Share capital account	Share premium account	Total
		HK$	*HK$ million*	*HK$ million*	*HK$ million*
Employee share options exercised					
– Pre-Global Offering Share Option Scheme	**1,283,000**	**8.440**	**1**	**10**	**11**
– New Joiners Share Option Scheme	**31,500**	**15.450**	**–**	**–**	**–**
	45,000	**15.970**	**–**	**1**	**1**
	31,500	**18.300**	**–**	**1**	**1**
	355,500	**19.404**	**1**	**6**	**7**
	30,000	**20.660**	**–**	**1**	**1**
Issued as 2007 final scrip dividends	**32,071,954**	**27.070**	**32**	**836**	**868**
	33,848,454		**34**	**855**	**889**

C Key details of the Company's share option schemes are summarised as follows:

	Half year ended 30 June 2008			Half year ended 30 June 2007		
	Pre-Global Offering Share Option Scheme	New Joiners Share Option Scheme	2007 Share Option Scheme	Pre-Global Offering Share Option Scheme	New Joiners Share Option Scheme	2007 Share Option Scheme
No. of previously vested share options exercised during the period	**1,283,000**	**493,500**	**–**	711,000	31,000	–
No. of share options granted during the period	**–**	**–**	**3,054,000**	–	1,066,000	–
No. of share options lapsed during the period	**17,000**	**93,500**	**65,000**	–	–	–
No. of share options vested during the period	**–**	**649,500**	**–**	–	325,500	–
No. of share options outstanding as at 30 June	**3,967,000**	**3,130,700**	**10,957,000**	7,118,500	3,815,700	–

Details of the movements in respect of these share option schemes are set out under the Corporate Governance and Other Information section on page 19.

24 Share Capital, Share Premium and Capital Reserve *(continued)*

D During the half year ended 30 June 2008, the following share options were granted under the 2007 Share Option Scheme:

Date of grant	Number of share options	Exercise price *HK$*	Exercisable period
02 January 2008	75,000	27.60	on or prior to 10 December 2014
03 January 2008	40,000	27.60	on or prior to 10 December 2014
04 January 2008	65,000	27.60	on or prior to 10 December 2014
07 January 2008	125,000	27.60	on or prior to 10 December 2014
28 March 2008	255,000	26.52	on or prior to 26 March 2015
31 March 2008	379,000	26.52	on or prior to 26 March 2015
01 April 2008	261,000	26.52	on or prior to 26 March 2015
02 April 2008	296,000	26.52	on or prior to 26 March 2015
03 April 2008	171,000	26.52	on or prior to 26 March 2015
04 April 2008	23,000	26.52	on or prior to 26 March 2015
05 April 2008	17,000	26.52	on or prior to 26 March 2015
07 April 2008	390,000	26.52	on or prior to 26 March 2015
08 April 2008	174,000	26.52	on or prior to 26 March 2015
09 April 2008	85,000	26.52	on or prior to 26 March 2015
10 April 2008	58,000	26.52	on or prior to 26 March 2015
11 April 2008	134,000	26.52	on or prior to 26 March 2015
12 April 2008	48,000	26.52	on or prior to 26 March 2015
14 April 2008	40,000	26.52	on or prior to 26 March 2015
15 April 2008	34,000	26.52	on or prior to 26 March 2015
16 April 2008	57,000	26.52	on or prior to 26 March 2015
17 April 2008	147,000	26.52	on or prior to 26 March 2015
18 April 2008	32,000	26.52	on or prior to 26 March 2015
19 April 2008	25,000	26.52	on or prior to 26 March 2015
20 April 2008	23,000	26.52	on or prior to 26 March 2015
21 April 2008	66,000	26.52	on or prior to 26 March 2015
23 April 2008	34,000	26.52	on or prior to 26 March 2015

25 Other Reserves

in HK$ million	Fixed asset revaluation reserve	Hedging reserve	Employee share-based capital reserve	Exchange reserve	Retained profits	Total
	Attributable to equity shareholders of the Company					
30 June 2008 (Unaudited)						
Balance as at 1 January 2008	**1,170**	**(25)**	**7**	**42**	**49,992**	**51,186**
Cash flow hedges:						
Effective portion of changes in fair value, net of deferred tax	**–**	**28**	**–**	**–**	**–**	**28**
Transfer from equity						
– to profit and loss account	**–**	**19**	**–**	**–**	**–**	**19**
– to initial carrying amount of non-financial hedged items	**–**	**(12)**	**–**	**–**	**–**	**(12)**
– to deferred tax	**–**	**(1)**	**–**	**–**	**–**	**(1)**
2007 final dividend	**–**	**–**	**–**	**–**	**(1,740)**	**(1,740)**
Surplus on revaluation, net of deferred tax (note 23)	**86**	**–**	**–**	**–**	**–**	**86**
Release of revaluation reserve on disposal, net of deferred tax (note 23)	**(35)**	**–**	**–**	**–**	**42**	**7**
Effect of decrease in the Hong Kong Profits Tax rate from 17.5% to 16.5%	**14**	**–**	**–**	**–**	**–**	**14**
Employee share-based payments	**–**	**–**	**9**	**–**	**–**	**9**
Release to share premium upon share options exercised	**–**	**–**	**(2)**	**–**	**–**	**(2)**
Exchange difference on translation of accounts of overseas subsidiaries	**–**	**–**	**–**	**27**	**–**	**27**
Profit for the period	**–**	**–**	**–**	**–**	**4,689**	**4,689**
Balance as at 30 June 2008	**1,235**	**9**	**14**	**69**	**52,983**	**54,310**
31 December 2007 (Audited)						
Balance as at 1 January 2007	968	(10)	5	17	37,148	38,128
Cash flow hedges:						
Effective portion of changes in fair value, net of deferred tax	–	(13)	–	–	–	(13)
Transfer from equity						
– to profit and loss account	–	–	–	–	–	–
– to initial carrying amount of non-financial hedged items	–	(2)	–	–	–	(2)
– to deferred tax	–	–	–	–	–	–
2006 final dividend	–	–	–	–	(1,554)	(1,554)
2007 interim dividend	–	–	–	–	(782)	(782)
Surplus on revaluation, net of deferred tax (note 23)	202	–	–	–	–	202
Employee share-based payments	–	–	2	–	–	2
Exchange difference on translation of accounts of overseas subsidiaries	–	–	–	25	–	25
Profit for the year	–	–	–	–	15,180	15,180
Balance as at 31 December 2007	1,170	(25)	7	42	49,992	51,186

Apart from retained profits, the other reserves are not available for distribution to shareholders because they do not constitute realised profits. In addition, the Company considers the cumulative surpluses on revaluation of investment properties, net of tax of HK$20,216 million (31 December 2007: HK$18,280 million) included in retained profits are non-distributable as they also do not constitute realised profits. As at 30 June 2008, the Company considered that the total amount of reserves available for distribution to equity shareholders amounted to HK$31,993 million (31 December 2007: HK$31,069 million).

26 Capital Commitments

A Outstanding capital commitments as at 30 June 2008 not provided for in the accounts are as follows:

in HK$ million	Railway operations	Railway extension projects	Property projects and management	Overseas project	Total
At 30 June 2008 (Unaudited)					
Authorised but not yet contracted for	**1,195**	**–**	**76**	**–**	**1,271**
Authorised and contracted for	**842**	**226**	**302**	**1,155**	**2,525**
	2,037	**226**	**378**	**1,155**	**3,796**
At 31 December 2007 (Audited)					
Authorised but not yet contracted for	916	–	72	–	988
Authorised and contracted for	547	152	377	633	1,709
	1,463	152	449	633	2,697

Included in the amounts authorised but not yet contracted for are costs that will not be subject to capital contracts such as staff costs, overhead expenses and capitalised interest.

B The commitments under railway operations comprise the following:

in HK$ million	Improvement and enhancement works	Acquisition of property, plant and equipment	Additional concession property	Total
At 30 June 2008 (Unaudited)				
Authorised but not yet contracted for	**943**	**6**	**246**	**1,195**
Authorised and contracted for	**543**	**1**	**298**	**842**
	1,486	**7**	**544**	**2,037**
At 31 December 2007 (Audited)				
Authorised but not yet contracted for	854	11	51	916
Authorised and contracted for	342	9	196	547
	1,196	20	247	1,463

C Investments in Mainland of China

Beijing MTR Corporation Limited, the public-private partnership company ("PPP") between the Group, Beijing Infrastructure Investment Co., Ltd and Beijing Capital Group for the Beijing Metro Line 4 Project has obtained its business license in January 2006 and the Concession agreement with the Beijing Municipal People's Government was signed in April 2006. Electrical and mechanical equipment manufacturing, including rolling stock and site installation, are in progress as scheduled. The PPP has a registered capital of RMB1,380 million of which 49% (about RMB676 million) would be contributed by the Group. In May 2008, the Group injected its last tranche of equity of RMB471 million (HK$515 million). The total equity contribution made by the Group was RMB676 million (HK$718 million), representing 100% of the Group's committed share. As at 30 June 2008, the PPP had outstanding contract commitments totalling approximately RMB2.2 billion (HK$2.5 billion) related to the project (2007: HK$2.5 billion).

In 2005, the Group and the Shenzhen Municipal People's Government initialed the project Concession Agreement to build Phase 2 of Shenzhen Metro Line 4 and to operate both Phase 1 and 2 of Shenzhen Metro Line 4 for a period of 30 years. The project is awaiting the approval from the Central Government. Preparatory work including design and tendering and expanded trial section is in progress. Under the Agreement in Principle and the approval document issued by the Shenzhen Development and Reform Bureau, there are certain buy-back arrangements with Shenzhen Government in the project related costs incurred by the Group should the project not be approved by the Central Government. Total investment of the project is estimated at RMB6.0 billion (HK$6.8 billion) which will be financed by equity capital contributed by the Group of RMB2.4 billion (HK$2.7 billion) and the balance by non-recourse bank loans in Renminbi.

27 Approval of Interim Financial Report

The interim financial report was approved by the Board on 5 August 2008.

Review Report

To the Board of Directors of MTR Corporation Limited

Introduction

We have reviewed the interim financial report set out on pages 28 to 47 which comprise the consolidated balance sheet of MTR Corporation Limited as of 30 June 2008 and the consolidated profit and loss account, the consolidated statement of changes in equity and the consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2008 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim financial reporting".

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
5 August 2008

Concept & Design: YELLOW CREATIVE (HK) LIMITED Printed by C & C SECURITY PRINTING Co., LTD

MTR Corporation Limited
MTR Headquarters Building, Telford Plaza
Kowloon Bay, Kowloon, Hong Kong
GPO Box 9916, Hong Kong
Telephone: +852 2993 2111
Facsimile: +852 2798 8822

www.mtr.com.hk

(Stock Code: 66)